INDEX
175
150
125
100
75
50
25
0

BUSINESS WEEK

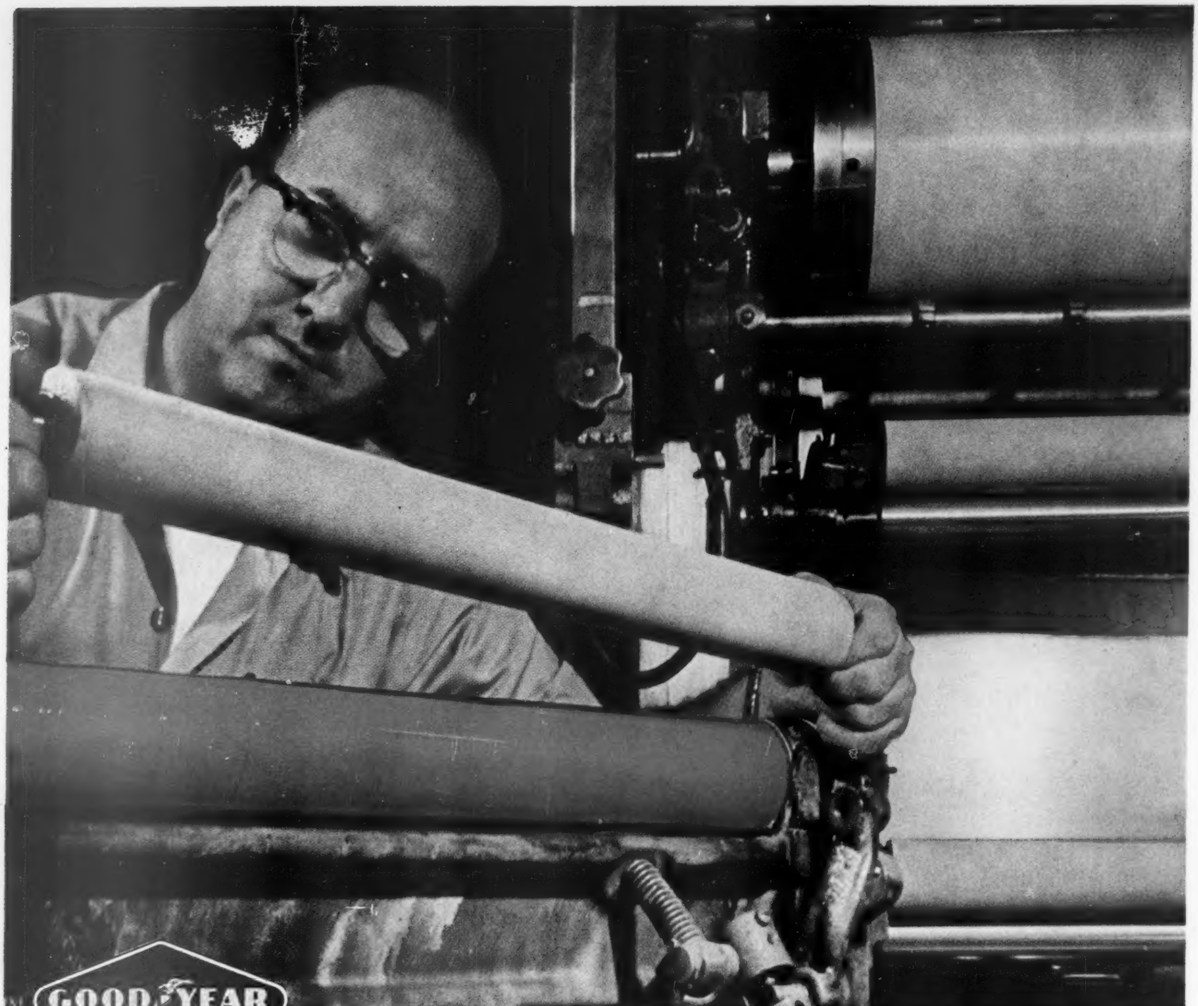
A McGRAW-HILL PUBLICATION FIFTY CENTS FEB. 4, 1961

U.S. is drinking more –

More kinds

More brands

(Industries)



Photograph taken through the cooperation of The Ideal Roller & Manufacturing Co. and Githens-Sohl Corporation, New York, N.Y.

They multiply inking roller life 16 times—with CHEMIGUM

Each new season used to call for new inking rollers on "job" printing presses. Glue composition rollers would swell, soften—even melt—in hot and humid weather. And they would shrink and harden in cool, dry weather. Valuable time was lost, printing quality varied.

A leading roller manufacturer found CHEMIGUM N-8 a year-round answer to the problem. CHEMIGUM N-8 effectively resists climatic changes. Its soft, smooth surface means proper ink pickup and release. Its oil- and solvent-resistance makes it more durable, easy to clean. What's more, CHEMIGUM is extremely easy to process, keeps costs down. And the new rollers last—not a season—but up to 4 years!

How can CHEMIGUM rubber or latex help you improve your product or enter a new market? Full details plus expert technical assistance are yours at Goodyear Chemical Division, Dept. B-9415, Akron 16, Ohio.

Lots of good things come from

GOODYEAR

CHEMICAL DIVISION

Chemigum -T. M. The Goodyear Tire & Rubber Company, Akron, Ohio

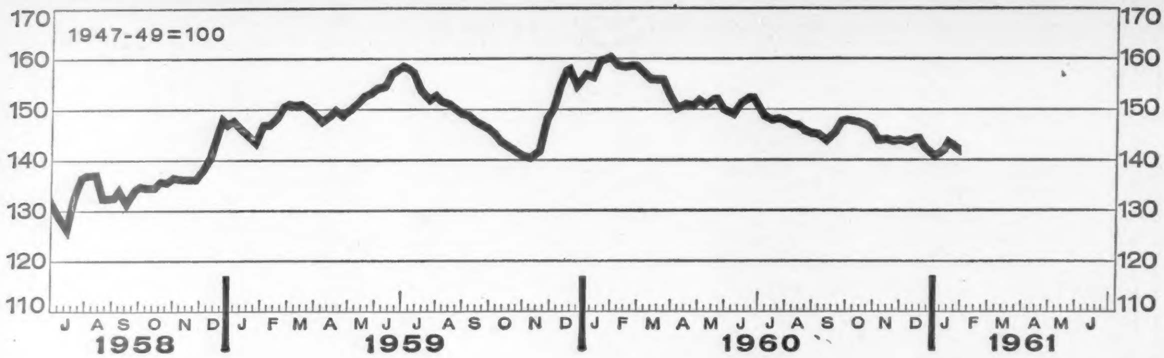
In BUSINESS this WEEK February 4, 1961

GENERAL BUSINESS

THE DEPARTMENTS

BUSINESS WEEK is published weekly by McGraw-Hill Publishing Co., Inc., 330 W 42nd St., N. Y. 36, N. Y. Second Class Postage Paid at N. Y. 1, N. Y., and at additional mailing offices. Subscription $6 a year in U. S. A. Canadian and foreign rates on request. This issue is published in National and Special editions. NUMBER 1640

FIGURES of the WEEK



	1953-55 Average	Year Ago	Month Ago	Week Ago	§ Latest Week
BUSINESS WEEK INDEX (chart)	**133.3**	**161.1**	**141.7**	**143.3r**	**142.6***
PRODUCTION					
Steel ingot (thous. of tons)	2,032	2,717	1,103	1,499r	**1,466**
Automobiles	125,553	173,231	86,497	94,155r	**95,973**
Engineering const. awards (Eng. News-Rec. 4-wk. daily av. in thous.)	$52,412	$58,797	$72,602	$75,480	**$66,635**
Electric power (millions of kilowatt-hours)	10,819	14,313	13,956	14,817	**15,361**
Crude oil and condensate (daily av., thous. of bbls.)	6,536	7,136	7,173	7,216	**7,198**
Bituminous coal (daily av., thous. of tons)	1,455	1,442	1,258	1,304r	**1,180**
Paperboard (tons)	247,488	325,870	163,709	310,328	**313,805**
TRADE					
Carloadings: miscellaneous and l.c.l. (daily av., thous. of cars)	70	59	46	50	**48**
Carloadings: all others (daily av., thous. of cars)	47	39	32	36	**34**
Department store sales index (1947-49 = 100, not seasonally adjusted)	121	113	319	129	**107**
Business failures (Dun & Bradstreet, number)	198	281	276	340	**400**
PRICES					
Industrial raw materials, daily index (BLS, 1947-49 = 100)	89.2	94.9	86.0	86.8	**87.2**
Foodstuffs, daily index (BLS, 1947-49 = 100)	90.5	72.1	75.8	77.5	**78.3**
Print cloth (spot and nearby, yd.)	19.8¢	23.0¢	17.5¢	17.5¢	**17.5¢**
Finished steel, index (BLS, 1947-49 = 100)	143.9	186.8	186.2	186.2	**186.2**
Scrap steel composite (Iron Age, ton)	$36.10	$42.17	$31.17	$31.50	**$31.83**
Copper (electrolytic, delivered price, E&MJ, lb.)	32.394¢	33.785¢	30.000¢	29.000¢	**29.000¢**
Aluminum, primary pig (U. S. del., E&MJ, lb.)	20.6¢	26.0¢	26.0¢	26.0¢	**26.0¢**
Aluminum, secondary alloy #380, 1% zinc (U. S. del., E&MJ, lb.)	††	24.32¢	23.04¢	22.97¢	**22.99¢**
Wheat (No. 2, hard and dark hard winter, Kansas City, bu.)	$2.34	$2.08	$2.03	$2.04	**$2.04**
Cotton, daily price (middling, 1 in., 14 designated markets, lb.)	34.57¢	31.93¢	30.14¢	30.14¢	**30.17¢**
Wool tops (Boston, lb.)	$1.96	$1.83	$1.65	$1.65	**$1.68**
FINANCE					
500 stocks composite, price index (S&P's, 1941-43 = 10)	31.64	56.17	58.02	60.20	**61.50**
Medium grade corporate bond yield (Baa issue, Moody's)	3.59%	5.36%	5.09%	5.11%	**5.11%**
Prime commercial paper, 4 to 6 months, N. Y. City (prevailing rate)	2–2⅛%	4¾%	3⅛%	3%	**2⅞%**
BANKING (Millions of Dollars)					
Demand deposits adjusted, reporting member banks	††	62,122	61,490	61,527	**61,955**
Total loans and investments, reporting member banks	††	102,276	110,416	108,781	**108,417**
Commercial, industrial, and agricultural loans, reporting member banks	††	30,559	33,042	32,534	**32,232**
U. S. Gov't guaranteed obligations held, reporting member banks	††	26,679	30,165	30,270	**30,631**
Total federal reserve credit outstanding	26,424	27,370	29,358	28,471	**28,545**
Gold stock	21,879	19,454	17,767	17,505	**17,441**

MONTHLY FIGURES OF THE WEEK

		1953-55 Average	Year Ago	Month Ago	Latest Month
Private expenditures for new construction (in millions)	**January**	$2,390	$2,870	$3,130	**$2,751**
Public expenditures for new construction (in millions)	**January**	$980	$943	$1,353	**$1,080**
Manufacturers' inventories (seasonally adjusted, in billions)	**December**	$45.2	$52.4	$54.0	**$53.7**
Manufacturers' new orders (seasonally adjusted, in billions)	**December**	$24.3	$30.7	$29.0	**$29.8**
Manufacturers' sales (seasonally adjusted, in billions)	**December**	$24.8	$30.8	$29.3	**$28.9**
Domestic air cargo (express, freight, millions of ton miles A.T.A.)	**November**	22.5	36.0	43.9	**39.7**

** Preliminary, week ended January 28, 1961.*
†† Not available. Series revised.
r Revised.
§ Date for 'Latest Week' on each series on request.

THE PICTURES—Cover—Tibor Hirsch; 14—Grant Compton, WW, WW; 15—WW, Pictorial Parade; 16—UPI; 18—WW; 19—UPI; 21—WW; 40—(top) WW, WW, (middle) WW, WW, Bureau of the Budget. (bottom) WW, WW, WW; 41—(top) UPI, WW, WW, (middle) WW, WW, WW, (bottom) WW, WW, WW; 42—(top) UPI, WW, WW, (middle) WW, WW, WW, (bottom) WW, WW, UPI; 44-45—Tibor Hirsch; 54—Western Pacific Railroad Co.; 61—WW; 70—Ed Malsberg; 78-79—Harry Redl; 94-95—Donn Albright.

BUSINESS WEEK • FEBRUARY 4, 1961 • NUMBER 1640

Published weekly by McGraw-Hill Publishing Company, Inc. Founder: James H. McGraw (1860-1948). **SUBSCRIPTIONS:** Available only by paid subscription. Publisher reserves the right to refuse non-qualified subscriptions. Subscriptions to Business Week solicited only from management men in business and industry. POSITION AND COMPANY CONNECTION MUST BE INDICATED ON SUBSCRIPTION ORDERS forwarded to address shown in box below. U.S. subscription rate for individuals in the field of the publication $6 per year; single copies 50¢. Canadian and foreign rates on request.
EXECUTIVE, EDITORIAL, CIRCULATION and ADVERTISING OFFICES: McGraw-Hill Building, 330 West 42nd Street, New York 36, N. Y. Telephone: Longacre 4-3000. Printed in Albany, N. Y.
Second class postage paid at N. Y. 1, N. Y. and at additional mailing offices. Title ® reg. in U.S. Patent Office.
OFFICERS OF THE PUBLICATIONS DIVISION: Nelson L. Bond, President; Shelton Fisher, Wallace F. Traendly, Senior Vice Presidents; John R. Callaham, Vice President and Editorial Director; Joseph H. Allen, Vice President and Director of Advertising Sales; A. R. Venezian, Vice President and Circulation Coordinator.
OFFICERS OF THE CORPORATION: Donald C. McGraw, President; Joseph A. Gerardi, Hugh J. Kelly, Harry L. Waddell, Executive Vice Presidents; L. Keith Goodrich, Vice President and Treasurer; John J. Cooke, Secretary.
UNCONDITIONAL GUARANTEE: The publisher, upon written request, agrees to refund the part of the subscription price applying to the remaining unfilled portion of the subscription if service is unsatisfactory.

SUBSCRIBERS: Please address all correspondence, change of address notices, and subscription orders to Fulfillment Manager, Business Week, 330 West 42nd Street, New York 36, N.Y. Change of address notices should be sent promptly; provide old as well as new address; include postal zone number, if any. If possible, attach address label from recent issue. Copies of publications are addressed one to two issues in advance; therefore please allow one month for change of address to become effective.

POSTMASTER: Please send Form 3579 to Fulfillment Manager, Business Week, 330 W. 42nd St., N.Y. 36, N.Y.

READERS REPORT

Second Thoughts

Dear Sir:

An article appeared [BW—Jan. 7'61,p68] concerning the Studebaker-Packard Corp. [in which I was quoted]. This was before I had met Sherwood H. Egbert, [S-P's new president].

. . . After a number of meetings with him, I do think now that things are shaping up well. . . .

It is very pleasing to see how well Egbert is going about making his presence felt. I am not just referring to press publicity, but in his handling of men and the making of sound plans. He has many things to his advantage for making this a success.

He is a tireless worker. A doer. He has seemingly unlimited energy. For a man who doesn't actually go to work until February 6th, he really is putting in hours of time now. He seems to be getting results.

He is a leader. People respect him. They will follow by his doing. To the ones who won't come willingly, he is strong enough (and big enough, 6'4") to make darn sure they will.

He thinks. That goes both for getting down to the reasons for a problem and also for not going off half-cocked on ideas. He is "pruning" excessive expenses and manpower.

He is experienced in business. Actually he is putting into action the very things I would have done. I do believe he is doing them better.

D. Ray Hall
PRESIDENT
GRAVELY TRACTORS, INC.
DUNBAR, W. VA.

R & D Abroad

Dear Sir:

While we found your report, "The Flow of U. S. Research Overseas" [BW—Dec.31'60,p76], interesting, we should like to take issue with your generalization that it is quite difficult for an American company to have research done in Europe.

Such difficulty may perhaps be encountered by the American company uninitiated in foreign research operations and unfamiliar with European business procedures. However, it has been our experience, having established a research and consulting branch in London specifically to conduct and manage

research programs in Europe for U. S. organizations, that any number of private, governmental, and educational facilities are available to perform both basic and applied research and development.

Our efforts to locate additional laboratory facilities for specific research and/or development projects have resulted in a most enthusiastic response by extremely capable British organizations. . . .

J. W. Rizika

PRESIDENT
NORTHERN RESEARCH & ENGINEERING CORP.
CAMBRIDGE, MASS.

Ladder of Success

Dear Sir:

The article, "What Makes College Recruiting Go Wrong" [BW—Jan.14'61,p70], raises some questions in my mind because it is so contrary to my somewhat extensive experience in personnel management and my brief experience as the acting director of a college placement bureau.

Dr. Odiorne, University of Michigan, is quoted as saying that recruiting will be for just two categories—plain employees and crown princes. Don't most companies recruit for positions in the lower levels of their organization? And doesn't the recruit then have to climb to the rank of crown prince by demonstrating his ability and merit? Is it Dr. Odiorne's position that a recruiter, on the basis of a college record and a half hour interview, can spot a potential president for his company?

I agree that trained recruiters should be more effective than those who are untrained, but the statistics given in this article do not furnish very conclusive support for this principle. . . .

Then there is the student whose conduct during an interview is governed by his "DIP" rating of the recruiter. Obviously this student arranges for a number of interviews. Does he accept the first job offer he receives? On the contrary, he delays acceptance until he has had the opportunity to make comparisons and then chooses what he deems the most attractive among the offers made to him. Doesn't it occur to this "mighty canny and mature" young man that, conversely, the recruiter would like to delay making definite job offers until he has had an opportunity to make comparisons. . . .

P. E. Wakefield

STEWARTSVILLE, N. J.

BUSINESS OUTLOOK

BUSINESS WEEK
FEB. 4, 1961

A BUSINESS WEEK SERVICE

Sift from the winter winds all the hopeful straws you can; **you still can't make January results look like much.** You have to look past January and past February, too.

But, then, who expected anything handsome in January? **Nor will February be any great shakes either.** If February can about hold even with January, however, that might prove **the most hopeful straw of all.**

You're getting evidence that **inventory liquidation in manufacturing has about reached the limit** unless end demand tumbles.

Steel output has turned up, if ever so slightly. Every day you hear steelmen grumbling about rush orders from **customers who have let their stocks run down below the danger point.**

Even at **retail,** you run into spot shortages. Manufacturers, trying to fill in the chinks, can't get quick delivery from suppliers.

Don't look to the official figures on manufacturers' inventories to prove that the "adjustment" is over.

The last report, hot off the presses, brings you no closer to date than end-December. And it shows inventories, particularly in durable goods, running off just about as fast as ever.

Take your soundings in the field (BW—Jan.28'61,p40); there things look better.

Purchasing agents, reporting to their national association, for the first time in months list **a substantial improvement in the proportion of companies experiencing an upturn in new orders.**

They still are in a minority, 24% of those reporting. But they were **17% in December, and this is the first turn for the better since August.**

And what happens **if this improvement in new orders is sustained?**

Production will be stepped up—and, perversely, **inventories** will go down faster than ever. That's because inventories can't be replenished as fast as finished goods leave shipping platforms.

Even now, **18% of the purchasing agents are stepping up their buying** so as not to get caught short; a month ago, it was only 13%.

—•—

Optimism in Wall Street (page 84), which has resulted in the stock market averages regaining two-thirds of the 1960 loss in the last three months, isn't necessarily forecasting an immediate business upturn.

Yet investors' sentiment is dominantly confident. They see defense business bolstering the outlook, general activity following.

—•—

Steel's recovery in January, small as it was, was gratifying.

And February's tonnage, even though it is estimated at no more than January's 6½-million, will represent a little further improvement because the gain will be accomplished with three fewer days to work.

Some steel companies don't even feel the improvement. Yet they all

find some growth in demand—if autos are left out of it. And this growth holds extra promise, for it is almost across the board.

Structural steel has felt about as little lift so far as any major product. Fourth-quarter new orders lagged conspicuously.

Yet even here, if you allow for the miserable December-January weather, the outlook isn't entirely bleak. The exceptional 22% year-to-year rise in December construction contracts reported by F. W. Dodge Corp. clearly **indicates better things for structurals.**

That's true particularly because the gain in December contracts was disproportionately weighted toward non-residential and heavy engineering projects.

Here's one further bone for steel to gnaw on (even though it may not be too rich and meaty): Exports of steel mill products pulled sharply ahead of imports in the second half of 1960.

—•—

Output of electric power last week was at a new record, 6½% higher than a year ago. Even more startling, it **violated all the rules** governing seasonal performance in topping the December peak week.

Such a late-January rise to above late-December levels would be encouraging indeed if it could be credited to rising industrial demand. But in this case it looks to be **bad weather and space-heating needs.**

—•—

Auto output will have to go up sharply in March if the industry is to reach the goal originally set for the first quarter.

January output was short of 420,000, and the February schedule calls for only 430,000. Thus it would require 600,000 or more **next month** to bring the three-month total to the projected 1,450,000.

Even so, March would be 50,000 short of the year-earlier outturn.

Looking at **the unhappy side of auto output** (not counting the way it has slowed steel deliveries against orders placed earlier by the auto companies), late January was running under 100,000 cars a week. That compares with 175,000 a year earlier, 1960's best period.

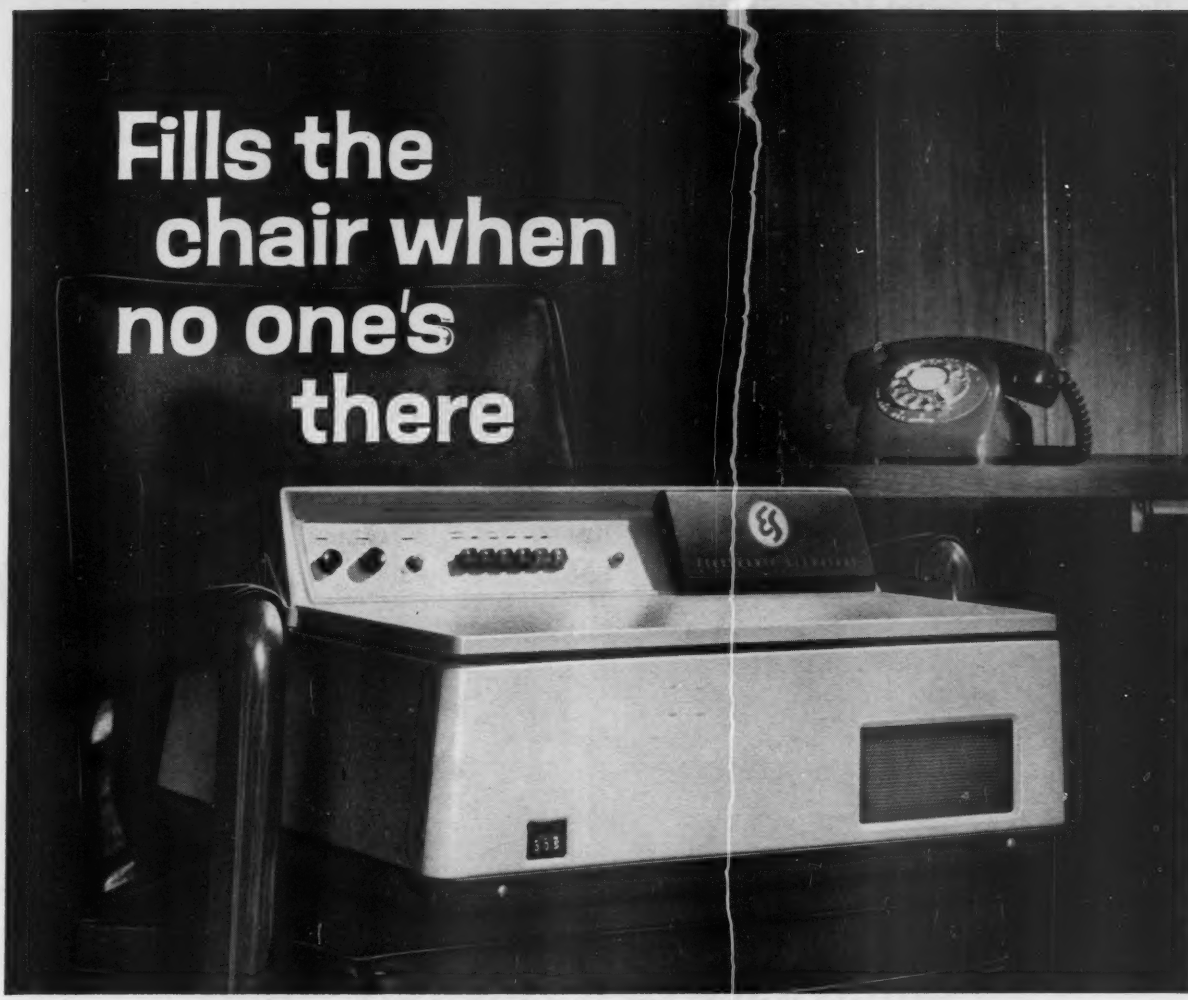
Even here there is **an alibi**, of course: The industry was rushing a year ago to make up volume lost through strike-imposed steel shortages.

If you're from **Missouri**, you'll believe this (but who excepting a Missourian would have seen it coming?): The Show Me State passed California and Wisconsin to take **second place in 1960 auto output.**

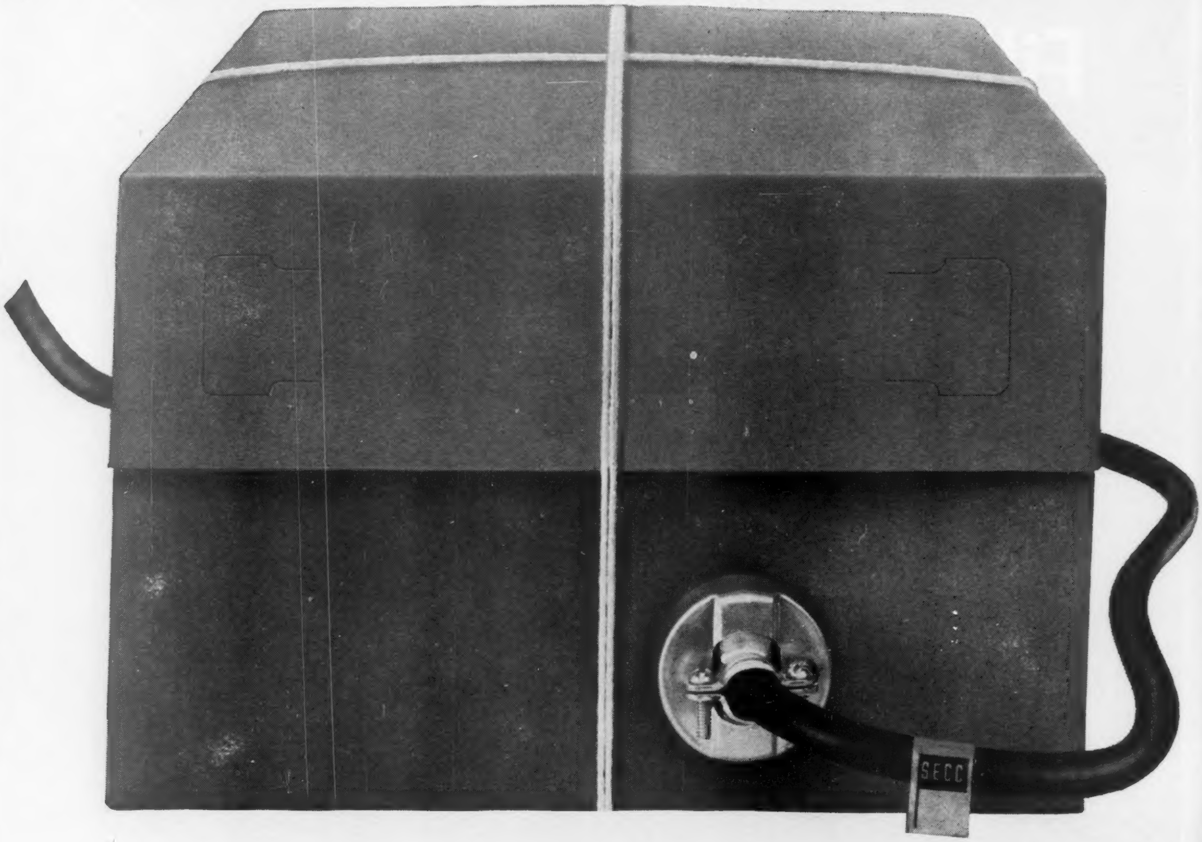
—•—

Very little but discouraging news will appear on unemployment in the weeks ahead. But there may be **crosscurrents** developing; the deterioration may not be so steady as it looks in the over-all totals.

In the week covering mid-January, those drawing unemployment compensation in Ohio dwindled (by more than the number simply exhausting eligibility). In Michigan that week, as you would expect, there was a rise.


Fills the chair when no one's there

Report on Electrical Modernization (FIRST IN A SERIES)



Electricity tied this box—and 2400 like it—for just pennies a day*

*At Empire State Cleaners, Dyers & Launderers, New York City

Today electricity does thousands of jobs for less—from computing the most complex business statistics to tying packages like this.

Electricity opens and closes doors, types travel tickets, molds and weighs 2,100 hamburgers in just 1 hour. It runs the conveyor belt, figures the payroll, powers the most efficient lighting, heating, purifying and cooling systems ever known.

No wonder more and more businesses, schools and institutions are taking steps to modernize electrically.

By employing more of the talents of electricity, stores, offices and plants in all 50 states have saved time and costs—and increased sales, production, efficiency and profits. And better lighting and electrically-powered teaching aids have speeded learning in schools and colleges.

How can more up-to-date use of electricity make *your* operation more profitable? First, think about it yourself. Then why not see what an electrical expert can suggest? No obligation, of course.

KEEP PACE ELECTRICALLY

Call your electrical contractor, electrical league or power company

This series is published by National Wiring Bureau, 155 E. 44 St., New York 17, a non-profit organization dedicated to better understanding and utilization of the benefits of electricity.

BUSINESS WEEK

FEBRUARY 4, 1961

NUMBER 1640

The Outlines of a Program . . .

. . . TO FIGHT THE RECESSION

More unemployment pay. New federal aid to stretch out payments—repaid from higher employer taxes.

Increased Social Security payments by earlier retirement for men and increased benefits.

More food for unemployed.

Minimum wage increase to $1.25 by steps, with expanded coverage.

Depressed areas help in loans and grants and a food stamp plan.

Faster public works spending.

More housing and construction, with new spending and incentives.

Plant investment incentives—perhaps a tax deduction for spending over amortization allowance.

Speed-up in veterans' life insurance refunds.

. . . TO CATCH UP ON NATIONAL NEEDS

New housing and urban affairs program under new Cabinet department.

Federal aid to education for building public schools and colleges; plus more help for basic research.

Better medical care for aged under Social Security; help for more hospitals, nursing homes, dentists, doctors.

. . . TO DEAL WITH BALANCE OF PAYMENTS

Steps to persuade Allies to shoulder more of defense costs.

Promotion of exports by new guarantees, financing.

Cut in tax incentives to invest abroad, curb on customs advantages.

Measures to attract foreign investment and travel to U.S.

. . . TO MEET DEFENSE NEEDS

Boosts—already ordered—in airlift capacity, Polaris subs, entire missile program.

Reappraisal—in the works, to be completed by end of month—of all military weapons, strategy, organization.

. . . TO IMPROVE FOREIGN RELATIONS

For underdeveloped areas, a new approach to foreign aid, long-term commitments.

For Food for Peace program, setting up of world food reserves.

For Latin America, $500-million for development fund.

For a new overseas peace corps, mobilization of skilled people of all ages to help needy countries.

For Eastern Europe, more discretionary power for President in economic dealings.

For Soviet relations, increased U.S.-Soviet cooperation.

. . . TO FURTHER ARMS CONTROL

Development of new proposals under Kennedy's direction.

. . . TO PROMOTE PEACEFUL USE OF SPACE

Invitation to Soviet Union and others to cooperate on weather and communications satellites.

Kennedy Moves – Cautiously

Pres. John F. Kennedy came to grips this week with the first of the great challenges his Administration faces: the problem of how to "get the country moving again."

In a flurry of conferences at the White House with legislative leaders, his Cabinet, and economic advisers, the President marshaled their ideas on the nation's most urgent problems. At a Cabinet meeting, he asked each in turn to define his most critical problem and his suggestion for meeting it.

It is evident that the new President means to move vigorously in a number of directions. But it also is evident that for a while at least he will be considerably more cautious than some of his advisers had expected. In the clash of ideas and suggestions that have been urged upon him, the more moderate seem to have won his approval. In the early days of his Administration, he has decided to propose a series of limited steps rather than a sweeping program.

• **Dark Picture**—In his State of the Union appearance before the joint

TREASURY Secy. Douglas Dillon (left), Under Secy. Henry H. Fowler (center), and powerful tax legislator Wilbur D. Mills (right) urged Kennedy to be cautious about such vigorous anti-recession stimulants as a tax cut. They argued: Wait and see what figures on March or April show; an upturn may be here by then. Kennedy accepted their advice.

session of Congress, Kennedy put the issue flatly: The American economy is in trouble. Recovery from the 1958 recession has been "anemic and incomplete." A million unsold automobiles are in inventory. Unemployment is at an intolerably high peak. Forecasts of only slightly reduced unemployment through 1961 and 1962 have been made with alarming unanimity.

And, Kennedy pledged, "this Administration does not intend to stand helplessly by."

Around the world, he said, the problems are more critical than even he realized before he took office on Jan. 20. "The tide of events has been running out and time has not been our friend," he said.

• **Follow-Up**—The President outlined in general terms early in the week what he intended to do. He promised that within two weeks he would send messages on all his proposals. Three days later he laid down a set of quick moves to pump money into the economy in hopes of speeding recovery.

Taken together, the State of the Union and economic messages were an attempt to achieve a sense of urgency in the face of an obvious intention in Congress not to move too swiftly.

• **Objections**—Republican legislative leaders denounced Kennedy for "running the country down," painting too bleak a picture, and whipping up a crisis that doesn't exist. A statement by five members of the House Republican policy committee saw the message as a "shabby attempt" to force through wild spending programs.

Some felt that Kennedy is talking a worse recession than he is proposing remedies for. If things are as bad as Kennedy says, they reasoned, he should be recommending more drastic measures. They noted that for the most part his remedies seemed to be "easy stuff"—mostly a slight step-up in welfare or construction spending already established.

I. Priority Prescription

At his Wednesday news conference, Kennedy gave some direct—and in some cases reluctant—answers to questions on economic issues he and his advisers have been considering for weeks.

He said a tax cut to end the business slump is not justified "at this time." He said he will take another look "in two or three months" to see if further anti-recession measures are necessary.

He said he would recommend revenue increases to bring in income equal to those Eisenhower recommended—equivalent to about $1.8-billion. These include $843-million in postal rates, increases in gasoline excises, and the like. Kennedy said he might have different recommendations, but he would ask enough to bring in the same amount of money.

Significantly, the first of the many legislative messages that Kennedy promised is aimed at domestic economic dullness rather than at world problems. This is what Kennedy prescribed in that first message:

• Extend unemployment compensation to workers who have exhausted their benefits. Money for this will be advanced from the Treasury. But Kennedy wants it paid back later by increasing from $3,000 to $4,800 the maximum wage on which employers are taxed for the fund.

• Increase Social Security benefits to pump more money into the economy the first year. Specifically, Kennedy would lower retirement age for men from 65 to 62, though with reduced benefits (as is now done for women); increase widows' benefits; increase monthly minimums to those without full coverage.

• Declare an immediate refund for holders of GI life insurance policies instead of paying each policyholder on his anniversary date. In addition, the Veterans Administration will review its reserves to see if an extra refund can be paid later.

• Speed placement of contracts for procurement and construction throughout the federal government (page 17)—defense projects, roads, public works.

• Grant tax incentives for spending on new plant and equipment, close tax "loopholes," repeal the 4% dividend tax credit.

• Stimulate housing construction by lowering maximum permissible interest rates for FHA loans from 5¾ to 5½%, passing an emergency increase in funds for government purchase of housing mortgages by the Federal National Mortgage Association. A more general housing program including urban renewal and public housing will follow.

• Enact quickly the depressed areas legislation already under consideration by the Senate Banking & Currency Committee.

• Hold short-term interest rates relatively high while seeking to lower long-term rates. This would strengthen the government's ability to keep dollars—and hence gold—at home, at the same time making business investment less costly. Kennedy said that this could be accomplished only with the close cooperation of all governmental agencies concerned. The Treasury and the Federal Reserve Board, he said, already are

working together to further effective debt management and monetary policy.

These measures are only Kennedy's immediate prescription. He intends to follow up shortly with measures for meeting what he considers to be long-neglected national needs: federal aid to school construction, health care for the aged under Social Security, an increased minimum wage.

II. Subtle Pump Priming

Significantly, Kennedy's anti-recession program is not one that involves going to Congress for big new appropriations. There are no WPA-type spend-for-the-sake-of-spending items. With his acceleration of procurement and construction projects, he is making maximum use of funds already appropriated by Congress out of earlier budgets (page 17). This puts money into circulation faster than waiting for new appropriations—and at the same time speeds work on such weapons as Polaris submarines and missiles.

Kennedy is drawing on reserves in the GI insurance fund. He is pumping out money through the Social Security fund that will eventually be made up through increased payroll tax. His officials claim the same principle applies to his method of extending unemployment compensation. Whatever extra money Fanny Mae is able to pump into the housing market will come from bond issues, not from Treasury appropriations.

• **Something for Everyone**—The economic package also demonstrates the political approach of a President schooled in the classroom of the House and Senate. There is something in the package for everybody, a bit of sweets to offset each dash of bitters. Those who will be lobbying for the package—in order to get their particular share through Congress—include Social Security recipients, veterans, young families in the housing market, homebuilders, the unemployed, labor unions, businessmen interested in tax incentives, defense contractors.

Despite the many features in the Kennedy messages this week, and the promise of more to come in the weeks ahead, Kennedy is still holding back—"treading water," says one of his advisers—on the crucial question of the business upturn and on tax policy.

• **Wait and See**—Some of Kennedy's advisers think unemployment, at 5.5-million, is already reaching the level where emergency measures are necessary. But even the more audacious are not pressing the point too hard. For the most part, they are willing to abide by Kennedy's decision to wait at least until March or April before considering drastic moves.

The President hopes that this week's splattering of spending increases and

LABOR Secy. Arthur J. Goldberg (left) and Social Security expert Wilbur Cohen (right) sold Kennedy on another form of quick stimulant to the economy: liberalized unemployment compensation and wide increases in Social Security payments.

welfare benefits will do the trick by themselves—put the economy into high gear and thus produce the tax revenues his long-range spending programs need.

III. The Advisers Conflict

On the key issue of when the business upturn is coming and whether to cut taxes there's been a hot debate behind the scenes.

The split is along the traditional lines—between those who say now is the time for a tax cut and those who say let's wait and see.

• **Tax Cut Urged**—At the long all-night sessions, Kennedy's Council of Economic Advisers has been the most active proponent of a quick tax cut now. Chmn. Walter Heller has long argued that every President should have stand-by authority to cut taxes temporarily on his own initiative. A temporary tax cut was proposed as a remedy, if the recession deepens, in the much-studied report of the anti-recession task force headed by MIT's Paul A. Samuelson—a group that Heller left only when he became Kennedy's chief economic adviser.

The President's new Assistant Secretary of the Treasury for Tax Policy, Stanley S. Surrey of Harvard, has pushed a four-pronged tax program including a cut in individual income tax rates and stiffer enforcement, as well as plant investment incentives and tightening of loopholes. He headed Kennedy's task force on taxes.

Obviously the "go-slow, wait-and-see" group have the President on their side at present. It's taken for granted now that the new President is basically more conservative than liberal; and on so delicate and uncertain a matter as gauging a business upturn and recommending a tax cut, Kennedy probably was inclined from the outset to play it cagey.

Certainly, Treasury Secy. Douglas Dillon—with support on this point from new Under Secy. Henry H. Fowler—is advising caution. At his confirmation hearings, Dillon said an anti-recession tax cut should be used only "in very severe circumstances." The Treasury isn't yet ready to call the recession severe.

Insiders also say that on the tax cut issue, as on practically every other, Theodore Sorensen, the President's Special Counsel, is against drastic action so early in the Administration.

• **Congress Cautious**—Kennedy also knows that the attitude of Congress in general still favors fiscal responsibility, as it did during the Eisenhower Administration.

For instance, Sen. Paul H. Douglas (D-Ill.), who is strong for Kennedy, goes along with the President's willingness to wait and see.

Rep. Wilbur D. Mills (D-Ark.), chairman of the tax-originating Ways & Means Committee, spent three hours at the White House before Kennedy came to Congress with his State of the Union message. Mills also took the cautious line that Kennedy finally accepted in making his economic proposals Thursday.

• **Kennedy's Views**—Kennedy, himself, is constitutionally against a cut in personal and corporate income taxes. He is a high-spend, high-tax man. He fears that a tax cut would set a bad precedent. A quick cut also seems to contradict his inaugural plea for "making any sacrifice, bearing any burden" necessary to tone up the nation's muscle.

For all the eagerness to do something about the recession, however, Kennedy

ECONOMIC Adviser Walter W. Heller led losers in economic policy debate. He urged quick action to give economy a strong stimulant, wanted to be ready with individual income tax cut as early as March.

is paying tribute to Eisenhower's stickiest legacy: the principle of the balanced budget.

IV. Balanced Budget

Eisenhower was able to popularize this principle, despite the earlier, mistaken Democratic notion that nothing buys fewer votes than a balanced budget. And Kennedy is conventional enough to say that the nation cannot run deficits indiscriminately. But he believes basically that budgets are balanced less by cutting expenditures than by increasing revenues from a rising economy.

In his State of the Union message, Kennedy made the point that his new spending programs ". . . including revenues from a stimulation of the economy, will not of and by themselves unbalance" the earlier Eisenhower budget for fiscal 1962, beginning in July.

• **Kennedy's Calculations**—The President's paragraph on this point seemed deliberately abstruse and confusing. Tax men in Congress privately called it "nonsense" or worse. But a translation from several sources—including officials close to the White House—gives the following as the assumption on which Kennedy's "balanced budget" depends.

Eisenhower forecast a 1962 surplus of \$1.5-billion.

Kennedy's spending programs won't boost Eisenhower's \$80.9-billion expenditure figure by more than \$2.5-billion, probably less. Kennedy's calculators figure they would get back \$1-billion of tax from the increased gross national product produced by the spending. Thus Kennedy's spending programs represent a net increase of \$1.5-billion—which equals the amount of the surplus Eisenhower projected.

• **Uncertainties**—However, the original Eisenhower showing of a surplus depended on Congress enacting his recommendations to produce \$1.8-billion in revenues. There's little chance at this time of anything like that.

Hence if Congress fails to enact the revenue increases, but does enact Kennedy's spending programs, then the Kennedy 1962 budget—by his own arithmetic—would show a deficit of at least \$1.8-billion.

Of course, budget figures can be juggled like this to make them come out any way you please, depending on the assumptions you make as you go along. Many economists contend that all such arithmetic is irrelevant—that the way to balance the budget and produce surpluses is to keep the economy going at full tilt.

Clearly, Kennedy is willing to see whether the economy in the next couple of months bails him out. If the upturn comes, he can take the position that increased revenues will come along, too.

If the recession shows no sign of ending by spring, then he may go to emergency tax cuts to give the economy the massive shot in the arm some of his advisers say it needs right now. But this would mean letting Kennedy's first hopes of an early balancing of the budget go by the board in an effort to get business off dead-center.

V. Dollar Imbalance

For now, this week, Kennedy acknowledges that his domestic problems are made more difficult by this country's overseas economic and political straits. He wants to stimulate and help U.S. business while luring back to these shores some of the investments that have gone abroad and have put the dollar in at least some jeopardy.

Broadly, Kennedy thinks that stimulating the domestic economy is the best long-range means of curing the dollar crisis, that a high rate of government spending on the home front should encourage business to invest more at home rather than abroad.

• **Milder Medicine**—Tackling the balance-of-payments problem directly, Kennedy rejects the kind of drastic medicine that many people, both in the U.S. and abroad, feel might be necessary to reduce the deficit and cut down the drain on our gold stock. In blunt terms, he rules out the imposition of exchange controls or the resumption of restrictive trade policies, such as higher tariffs, or any major change in American commitments to foreign countries.

At the same time, he clearly indicates that he will not let the deficit in the balance of payments—or the gold drain—hamper the Administration's effort to stimulate recovery at home. In effect, this means that he will be against any attempt by the Federal Reserve to tighten money in order to stem the outflow of capital to Europe if such a move would make it more difficult for domestic borrowers.

But while Kennedy plans to avoid any drastic measures, on Monday he made it clear that he will defend the dollar and maintain the \$35-an-oz. price of gold.

Kennedy's pledge to defend the dollar had also been made by the Eisenhower Administration. But Kennedy seems intent on going further to insure that the dollar will be safe. He sketched out a series of steps to encourage a bigger outflow of American exports and to attract foreign investments to the U.S. and he plans to plug tax and customs loopholes that have permitted a drain on both dollars and gold. Next Monday, he will send Congress a message on the balance of payments, detailing measures to check the outflow of gold and dollars.

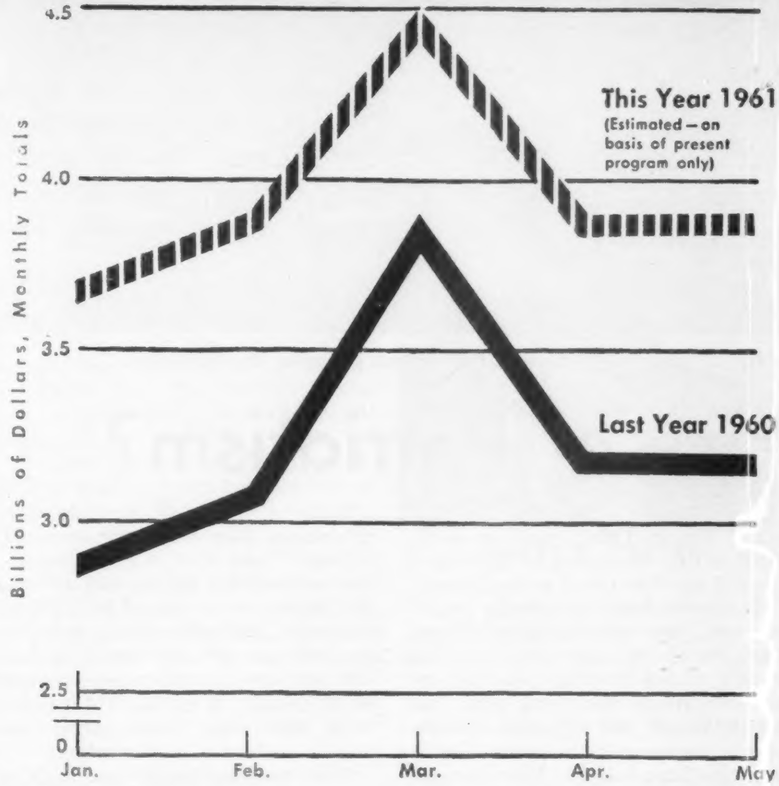
Many of these steps were under discussion by the Eisenhower Administration. But Kennedy plans to move on them. Moreover, in two areas he appears to be departing from the Eisenhower line.

• **Pressure on Allies**—He countermanded Eisenhower's directive to bring back the families of American servicemen stationed abroad on grounds that the directive was hurting the morale of U.S. forces overseas. He said other ways have been found that will trim military spending in foreign countries by roughly the \$200-million a year that had been expected to be saved eventually by reducing the number of military dependents abroad. In addition, the President apparently plans to press harder than Eisenhower did to get our allies to pay a larger share of defense costs.

More significantly, he indicated that the entire U.S. gold stock will be made available, if needed, to defend the dollar. He pointed out that the U.S. has some \$22-billion in gold available (about \$17-billion in the U.S. gold stock itself and \$5-billion in drawing rights from the International Monetary Fund).

Under current law, though, the U.S. is required to maintain a gold reserve of 25% for Federal Reserve credit outstanding; at present this reserve amounts to \$12-billion. Kennedy's declaration that the total gold stock will be available carries the definite implication that he will not regard the statutory gold reserve requirement as sacrosanct.

A New Wave of Defense Contracts



Direct Obligations of Defense Dept.

Data: Defense Dept.; BUSINESS WEEK Estimates

And More On the Way

A new surge of government defense contracts was on its way even before Pres. Kennedy's order went out to all agencies this week to boost the rate at which they were placing new orders. Even before the Kennedy move, the Defense Dept. had expected to boost its spending commitments by at least $2.5-billion during the remainder of the year.

These extra contracts are not dependent on the new defense measures proposed this week in the State of the Union message (page 13). Instead, they represent a fiscal legacy from the Eisenhower Administration. Any new contracts that follow Kennedy's proposals will come on top of those that were already slated by the Eisenhower Administration and estimated in the chart above.

Defense Dept. officials do not expect the coming "reappraisal of military strategy" Kennedy ordered to result in the cancellation of existing programs—not at least during the next few months. Instead, they feel that any new spending that may result from Kennedy's specific proposals for the immediate strengthening of the defense forces will be added to the Eisenhower totals.

• **New Business**—New push on the defense contracts is only part of a stepped-up flow of commitments already initiated by the Eisenhower Administration before Kennedy took office.

Coming on top of these increases in spending commitments already contained in the Eisenhower budget, Kennedy's demand for faster order placement by government departments should mean a substantial boost for business, since a solid chunk of the government's extra spending plans will be translated quickly into new orders.

The increase in government ordering will help stem a decline in manufacturers' new orders that has been going on since September. Just such a fall in new orders was halted once before by an increase in government ordering—during the later stages of the 1957-58 recession. If the same thing happens again, the current recession could be arrested before the major increase in government spending itself takes place.

• **Inventory Boost**—An increase in government orders could also bring about a speedy end to inventory liquidation—the primary cause of the current recession.

A survey of inventory policy taken by BUSINESS WEEK reporters last week (BW—Jan.28'61,p40) shows that most companies have already completed their inventory-cutting programs, or planned to have them completed by late spring. There's a good chance the increase in government orders will accelerate the end of the inventory decline, and possibly lead to inventory building before midyear.

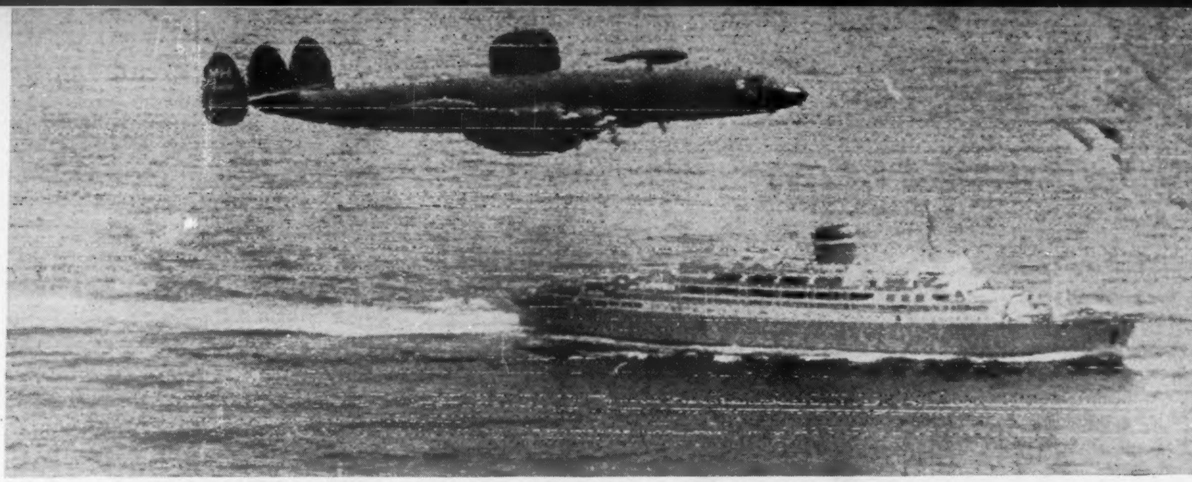
• **Skeptics**—Some economists are skeptical about the immediate effects of the increase in government orders. They argue that most of the boost in orders will come in the defense industries. They go on to say that production in the major defense programs has not recently been held back by a shortage of orders on the part of defense producers. Instead, they argue that orders in these areas have been plush for some time, and that it is difficult to increase defense production rapidly simply because of the complexities of defense technology.

These economists argue, too, that the new defense technology limits the amount by which employment is helped when the government boosts defense spending.

• **Implication**—The Eisenhower budget estimates presented early this year figured on $86-billion in spending commitments during the current fiscal year ending June 30—up by $10.7-billion from the 1960 total of $75.3-billion. At the time that the budget was presented, Eisenhower's Budget Director, Maurice Stans, said that "substantially less than half" of the increase between fiscal 1960 and fiscal 1961 had taken place before Dec. 30, 1960. Stans went on to draw a clear implication: Contract awards would rise well over $5-billion during the first half of 1961.

Stans felt that the boost in contract awards from the first to the second half of the year "will play a significant role in helping support an early economic revival." However, it is impossible to estimate the time lag between rising government spending commitments and actual expenditures.

In addition to a $2.5-billion boost in defense commitments, the Eisenhower budget indicated a big stepup in the rate at which funds were being committed by the National Aeronautics & Space Administration and in the economic aid program of the Mutual Security Administration. In addition, the building industry was expected to get some support from a $300-million increase in spending scheduled by the Housing & Home Finance Agency, mainly for college housing and urban renewal programs.



HIJACKED Santa Maria eludes posse for three days, is sighted by U. S. plane. For insurance companies, the question is . . .

Was It Piracy—or Patriotism?

This week, the sleek Portuguese luxury liner Santa Maria (picture) steamed into the hot and busy port of Recife, Brazil, after 10 days of an enforced cruise for its 560 passengers, including 45 Americans. While the passengers finally reached land, the fate of the ship itself, and of its 70-man conspiratorial crew headed by Henrique Galvao, 66-year-old soldier-author, is still in doubt.

To the Portuguese government of Antonio de Oliveira Salazar, Europe's most durable dictator, Galvao and his crew were simply "pirates," who warranted the traditional justice meted out to buccaneers—death by hanging. The ship's owners, Companhia Colonial de Navegacao, took the same view.

• **Patriot or Pirate?**—Whether Galvao's act was piracy is important for financial as well as political reasons. The definition of piracy has become rusty through lack of incidents, and until the disposition of the Santa Maria is settled, no one is sure what course will be taken by the insurers or by the owners.

Galvao, a swashbuckling adventurer who topped his previous exploits by hijacking the vessel and capturing world headlines, claims that he is a patriot, not a pirate. In taking over the ship, one of the crew was murdered, but several others, wounded in the struggle, were released at the British-owned island of St. Lucia.

Moreover, as soon as he had the ship, Galvao began firing off radiograms. The Santa Maria, he said, marked the "first liberated part of national territory," and that his motive was, in fact, revolution against Salazar and his government. Galvao radioed the New York Times to get in touch with Humberto Delgado for further information. Delgado, who ran against Salazar for the presidency of Portugal two years ago was in exile in Brazil. He acknowledged that he was the leader of the rebellion, and that Galvao was acting under his orders.

At first, the U. S. State Dept. and the British Foreign Office made no bones about calling the seizure of the ship a piratical act. The orders to the Atlantic Fleet were to find, stop, search, and, if necessary, take over the Santa Maria. Then, the new Administration modified its tack, saying that the ship was not to be boarded; this came after the British, Dutch, and Venezuelans withdrew as members of the posse. Finally the State Dept. told the Navy to negotiate with Galvao and escort him to a rendezvous where the passengers could be put ashore.

• **Dead of Night**—The Santa Maria itself is a real prize of the ocean, the queen of Portugal's six cruise-liners; it was insured for over $21-million. Built in Belgium in 1953, the 20,906-ton vessel has a speed of 20 knots and all the accouterments that embellish travel agency literature—outside cabins, air conditioning, two swimming pools, gala concerts. In the winter, it sailed regularly between Lisbon, the Canary Islands, and the Caribbean, stopping at cruise ports en route.

That was how Galvao managed his audacious seizure. His men boarded the ship at two separate ports—La Guaira, in Venezuela, and Curacao in the Dutch West Indies. At one o'clock in the morning, when only a skeleton crew was about, he took over. The capture was complete in 10 minutes.

• **An Insurance Problem**—While Galvao's action may be in the tradition of piracy, Admiralty lawyers doubt that the charge can stick. For piracy, as defined in Green Haywood Hackworth's Digest of International Law, consists of sailing the seas and capturing vessels for private ends. This would seem to exclude the Santa Maria case, not merely because Galvao proclaimed himself a rebel but because he does not appear to be after any private gains.

Marine insurance law also is difficult to interpret. From all accounts, Galvao's seizure does not constitute an act of piracy. Even if it did, the insurers may not be liable for any loss or damages because of the normal FC&S (free of capture and seizure) clause that is a standard part of any marine policy. The only way that the company could get the insurers to pay up is if it had a "War Risk" cover, which might conceivably include Galvao's action.

Most modern liners have such a cover, but it is uncertain whether the Santa Maria has such insurance, and, if it has, whether it will be honored. In London, underwriters at Lloyds are refusing to talk about the case, partly because of the delicate political issues involved. The ship was insured in Portugal and reinsured in London for some $9.8-million—about half with Lloyds.

• **Old Spirit**—This week, though, the Santa Maria still had some of its old cruise spirit. When Rear Adm. Allen Smith met with Galvao after the State Dept.'s change of heart, passengers were staging a bridge tournament while planes were circling overhead as photographers tried to parachute onto the deck. When Galvao agreed to put into Recife, it seemed clear he was doing so because of assurances that Brazil's new president, Janio Quadros, would not treat him or his band as pirates.

The Portuguese were fuming at the reception Galvao was getting, and their navy was reported steaming to intercept the Santa Maria. Meanwhile, the U. S. Navy is all steamed up about its failure to locate the Santa Maria earlier. Despite Galvao's free use of the ship's wireless, the liner could not be located for three days. Eventually, it was found by a Danish freighter, which radioed the U. S. Navy, whose search fleet included four destroyers, 16 planes, and a nuclear submarine.

New Race Rule on Housing?

Builders assume Weaver nomination as head of Housing & Home Finance Agency heralds a major Administration attack on discrimination in federally aided housing.

Protests against the nomination of Robert C. Weaver (picture) as administrator of the Housing & Home Finance Agency hit a peak this week as Pres. Kennedy sent his name to the Senate for confirmation. Despite their objections, however, his opponents appeared resigned to the inevitable:

First, to Weaver's confirmation by the Senate after heated hearings before the Banking & Currency Committee, which may start next week.

Second, to an executive order by the President prohibiting discrimination in housing built for sale or rent with federal help—whether the help is in the form of outright subsidies or merely of mortgage insurance or guarantees provided by FHA and VA. Advocates of such an order feel it would make legislation unnecessary.

The furor began New Year's Eve. Kennedy announced his selection of Weaver, then serving as vice-chairman of New York City's Housing & Redevelopment Board after a long career in federal and state housing agencies. Protesting mail—more of it from the North than the South—flooded the Senate committee. It came from men in the building industry and from housewives.

• **Key Issue**—The protests were not aimed primarily at the fact that Weaver is a Negro. The issue is his long agitation for an enforced end to discrimination in housing. Only last August, in an article in Land Economics, Weaver had argued that "opening the suburbs to non-whites is one of the necessary prices for attracting and holding middle-income whites in the central city."

This week, as Weaver mingled among them at their annual convention in Chicago, members of the National Assn. of Home Builders who talked to BUSINESS WEEK reporters seemed reconciled to his confirmation.

Some called his selection a mistake and others guessed he wouldn't last long in the job. But most were viewing the same straws in the wind as was Chmn. A. Willis Robertson (D-Va.) of the Senate committee who, though opposed to Weaver's selection, forecast that his committee would report Weaver's name favorably and the Senate would confirm it.

• **President's Backing**—Most builders were disturbed about the policies

ROBERT C. WEAVER

Weaver represents, but even on this they showed more resignation than defiance. What they didn't say, but seemed to be aware of, was that Kennedy himself was obviously behind Weaver. Although the President has not spoken out on the subject since his inauguration, he had promised during the campaign to issue the executive order for which Weaver, the U.S. Commission on Civil Rights, and other groups and individuals had clamored.

Such an order would not be the federal government's first effort to do away with discrimination in housing, but it would be the most effective.

During the Eisenhower Administration's tenure, the FHA and the VA began to cooperate with states that had antidiscrimination laws of their own. Eight states now forbid discrimination in sale or lease of homes and apartments built with FHA or VA support: California, Colorado, Connecticut, Massachusetts, New Jersey, New York, Oregon, and Washington.

This collaboration has had only limited effects, however. For one thing, none of the state laws cover all FHA and VA deals; some, for instance, cover only developments of at least 10 houses. In some of the states a complaint must originate with the offended person; the state itself can't start action. Then, too, the FHA and VA have held that they can not move into a case until a builder has been found guilty by a state—and that's a long process.

Still, builders in Chicago acknowledged they have tried to circumvent state laws and succeeded. "A lot of us builders simply say we have contracts or have given options to buyers, and that houses aren't for sale," a New Yorker said.

Hence, the agitation for an executive order to cover the whole 30% of housing starts that are financed with FHA and VA help. Such an order would make the state laws unnecessary for FHA and VA housing, leave states free also to prohibit discrimination in most other kinds of housing—as four do now.

• **Visions of Gloom**—The prospect of such a Kennedy order held out visions of gloom for several builders interviewed. "Open occupancy on a federal basis would kill the project builder," a Texas project builder said. "Such a law would stop housing in its tracks," said another.

The only alternative some saw would be to go 100% into conventionally financed homes. "I would be forced to turn to conventional financing," said an Ohio builder who doesn't want to build for Negroes. "Conventional financing is getting better all the time, anyway," said C. Ray McDaniel of Joplin, Mo.

But to others this was not the perfect alternative. "If you take away the minimum downpayment permitted by FHA and VA financing," noted Glynn Phillips of Arlington, Tex., "you take away a lot of people." Added a Maryland builder: "There's no question we wouldn't be selling the volume we are today."

In these appraisals, the builders have precedent of a sort to go by. Statistics are not available, but lending institutions in states with anti-discrimination laws affecting FHA and VA say they have seen no greater switch there to conventional mortgages than has occurred in the U. S. as a whole.

• **Seeking Ways Out**—The result was a search for other solutions. Some put their faith in the prospect of drawn-out court hearings on the constitutionality of such an order. Others hoped they might be able to ignore it. Still others just supposed "some other way" would be found to finance the construction of homes for a mass market—though as of this week they had no idea how.

Aware that no such solution has yet been unearthed and mindful of what appears to be Kennedy's determination to support Weaver and "open occupancy" in federally assisted housing, many seemed resigned. One Texas builder noted that if Kennedy wants to be tough, he can go a step further. Savings and loan associations handle the largest share of conventional mortgages, he said; if that should become an escape hatch, the President might move against discrimination through the Federal Home Loan Bank System, which provides S&Ls with credit.

Maser That Does Everything

Bell Telephone Laboratories' new tube generates a light beam that opens new communications channels, holds promise as a measurement standard and heat source.

Grinning with quiet satisfaction that betrayed a solid scientific royal flush hand, three of Bell Telephone Laboratories' scientists—all under 35—met with the press this week in a basement room of a midtown New York hotel. What they had to show was a glowing orange tube in a metal frame that stands a good chance of evolving into the most commercially significant scientific development to come out of the giant AT&T research and development arm since the transistor.

The optical-electronic device, called a continuously operating, gaseous optical maser—offers a thousandfold improvement over anything similar in electronics or optics that scientists so far have developed. Its promise lies in its remarkable ability in at least five jobs:

• In communications, it generates an infrared beam that will carry up to a million simultaneous telephone conversations, or hundreds of television channels.

• In space, it can send information —and possibly power—for millions of miles without serious loss of strength as the distance increases.

• For military use, it offers the possibility of aiming a communications channel so accurately that only the intended receiver can even detect it.

• For scientists and industry, it will supply a convenient source of controllable heat that can be focused to almost infinite fineness to produce temperatures in millions of degrees, with uses ranging from study of chemical and nuclear reactions to drilling precise holes in any known material.

• For accurate measurements—a basic requirement of both science and industry—the maser is the most precise standard ever available and one of the cheapest.

• Deceivingly Simple—Yet with all these talents, the device itself is not particularly complicated. And it should not be very expensive to make. As in the case of the transistor, the maser's simplicity belies the tremendous scientific effort that preceded its creation out of a quartz tube, two special mirrors, a component of a radio amateur's low-power transmitter, and two infinitesimal whiffs of neon and helium.

These simple parts do a single job. They generate high-intensity electromagnetic waves in or near the visible spectrum. But these light waves have a different quality than light produced by other means. The maser's light is produced very precisely at a single wave length, and the waves are all lined up in the same direction. Ordinary light, even though it appears to the human eye as pure blue, or pure red, or pure white, is actually made of a batch of mixed frequencies and the waves go off in different directions. Such light is not particularly useful as a substitute for radio waves to carry signals because it consists essentially of noisy, random vibrations.

This is a pity, because the higher the frequency of a wave, the more signals it can carry—and light has much higher frequency than any radio wave. Electromagnetic radiation at the frequency of light or of infrared, ought to carry much more information than the highest practical radio frequencies.

• Breakthrough—Light has never been used before for communication because there was no way to generate it at a closely controlled frequency—not until the new device was developed. The device makes use of a basic principle of atomic physics; electrons in atomic orbits always move in jumps—called quantum jumps—from one energy state to another. The jumps are always the same size in a particular atom.

In Bell lab's gaseous maser, by exciting the molecules of the neon-helium gas with a radio frequency, the quantum jumps give off photons of light of a specific frequency. As this light is bounced back and forth between the mirrors at the end of the tube, it is reinforced until it saturates the tube. The energy going into the tube then makes up for the leakage of a little bit of the light through the mirrors at the tube's ends. And the light that penetrates the mirrors is all of the same wave length and traveling in the same direction.

• Practical Uses—There is little doubt that the gaseous maser will be converted into practical devices in a hurry. A continuous source of coherent light has been the goal of dozens of defense and commercial research projects conducted over the last few years. The first demonstration of coherent light was given last summer, by Hughes Aircraft Co. (BW—Jul.16'60,p102). Hughes' device was a solid piece of ruby, triggered by a powerful flash of visible but noncoherent light. It operated only for a fraction of a second. Bell Laboratories and International Business Machines Corp. also demonstrated pulsed masers that could generate coherent light. IBM believes it has found a way to generate continuous light in a solid crystal, but it will have to be kept at temperatures near absolute zero, and therefore cannot handle large amounts of power.

Minuteman Makes the Grade

Successful test promises U. S., sooner than expected, a new, mobile defense weapon almost invulnerable to attack.

Precisely at 11 a.m. on Wednesday of this week, a sleek Minuteman intercontinental ballistic missile rose from its pad at Cape Canaveral and thundered away to impact on target some 4,000 miles away in the South Atlantic.

Civilian and military observers had witnessed two other important U. S. rocket firings this week. First came the successful firing of a chimpanzee in a Mercury capsule (page 60). And second was a Samos (Spy-in-the-Sky) satellite sent into polar orbit. But neither of these had the military and political significance of the remarkable Minuteman shot.

Air Force development teams admit they were gambling heavily on the first range firing of the three-stage, solid-fueled Minuteman. The primary objective of this—the maiden flight of the first truly "pushbutton" rocket—was to test the performance of the Thiokol-built first stage of the 58-ft. rocket. Not only did the first stage fire exactly as programed, but stages two and three (made by Aerojet-General Corp. and Hercules Powder Co.) also performed perfectly. The Minuteman as it flew this week carried virtually all the components it will contain as a military weapon.

The result should cut more months off the Minuteman's test program schedule. By the spring of 1962, the Air Force should have, in place and at the ready, a weapon that will give the U.S. an important new string in its defense bow—a long-range second-strike, or retaliatory, weapon that serves as a deterrent and is itself all but invulnerable to surprise attack.

• Technical Merits—The merits of Minuteman, as compared to other U.S. intercontinental missiles, are many:

• From an engineering and structural standpoint, Minuteman is far simpler than Atlas and Titan.

• It's lighter (weighing one-quar-

ter as much) and smaller (roughly 24 ft. shorter) than Atlas.

• It can be fueled and hidden away in the ground for periods up to three years, then fired in a matter of minutes.

• Because of its compactness and simplicity, it can be used as a mobile weapon, fired either from a specially designed railroad car or from the deck of a large surface ship.

• And as intercontinental missiles go, it will be cheap—costing only some $3.4-million per rocket.

Compared to the IRBM Polaris, Minuteman has greater range (a combat range of 6,325 miles, compared to 2,500 miles), and an eventual heavier payload potential (a megaton nuclear warhead as opposed to a half megaton).

• **Political Significance**—Minuteman has one drawback: It can't compare with Titan II's payload potential (2 megatons or the equivalent of about 1-million tons of TNT). The fact that Minuteman depends on thrust supplied by the combustion of solid (as opposed to liquid) chemical fuels means that engineers probably won't ever be able to overcome completely this payload restriction.

But this drawback may have political advantages. The Minuteman is obviously a defensive, retaliatory weapon, not designed to be used on an offensive first strike. Thus, there is open speculation within the scientific community that the Russians may well look with less concern on a rapid buildup of Minuteman in the U.S. than they would on any sudden increases in the Atlas or Titan programs.

• **Speedup**—In the Eisenhower budget for the next fiscal year, Minuteman was to have received just over $1-billion.

But Pres. Kennedy is almost certain to increase this figure considerably. He said bluntly in his State of the Union message that Minuteman was one specific missile system that would be speeded up, but, at midweek, had given no indication of additional dollar allocations.

Rocket industry observers speculate that Minuteman could profitably use almost $2-billion right now. Plans now call for building 600 Minutemen—450 for burial in underground silos; 150 to be dispersed on rails in the Northwest. American Car & Foundry, as subcontractor to Boeing Airplane Co., has delivered the first car for electronic outfitting, but this has still to be tested in a live firing.

First need for speedup, observers say, is to build more underground silos. The first operational launching complex, scheduled to be started this month in Montana, is expected to take 15 to 18 months to build. Backers argue that more money in the program now could cut this time lag materially.

CHIVALRY WAS STRAINED in Boston by the Dec. 12 blizzard. These four women stalled in the Somerville section could find only one man to help them push their car.

Where the Winter Hurts

"One of the toughest winters in years," New York weatherman Ernest J. Christie called it last week, and people all over the Northeast said it was an understatement. At midweek, snowfall at New York was only 9 in. short of a record, with half the winter to go, and the city had gone through the longest continuously below-freezing spell since 1893.

Commuting service and city transit sank under the first big December snow and seemed more vulnerable with each new wave of cold or snow. In Washington, D. C., a snowfall of 7 or 8 in. threw a wet blanket over Inaugural Eve celebrations—people couldn't get to the parties. The same storm cut thousands of suburban Philadelphians off from their jobs; only one out of five employees of the Insurance Co. of North America, for example, made it to work. In New York City, while roads were snowbound, railroads as well as railroad ferries were shut by a strike (BW—Jan.21'61,p40).

Lack of a thaw forced many communities—and companies, too—to truck the snow away, a slow and costly process ($1.45 a cu. yd. in New York City) that soon exhausts snow removal budgets.

• **Widespread Effects**—Though the Northeast is feeling winter's severity most keenly, much of the rest of the country is getting a taste of snow and cold, too. An exception is the Far West, where the weather has been dry to the point of drought.

In Atlanta, temperatures dropped low enough last week to turn rain into sleet, then kept dropping to hold the city in an unfamiliar glaze of ice. In Dallas, the mercury dropped to 19, and 3 in. of snow fell on roadways already coated with ice. Florida orange growers had scares from cold waves.

• **Business Is Hurt**—Getting hit hardest by the weather are retailing first, then construction. In 10 Federal Reserve Districts, department store sales in the four weeks ended Jan. 21 ranged from 1% to 9% below year-ago. Merchants don't blame the weather alone but the combination of weather and recession.

In Philadelphia, department store sales for one week in January ran 27% behind the corresponding week of 1960, and an economist notes that "retailers are really weeping." A Buffalo department store president says, "Business just died when the weather came." Pittsburgh stores, lagging all through January, say customers respond "only to extraordinary values and sales."

Outdoor construction normally continues through most of December, but not this year. The premature halt of work dropped construction employment nationally to just over 2½-million in December; the drop of 320,000 from November is about double the normal season decline. In Boston, unemployment compensation checks rose sharply

just after the Dec. 12 storm; the number of workers now drawing these checks is twice that of last winter.

• **Some Escape**—For a city to be hurt very much by winter weather, snow and unusual cold had to work in combination. Cities that got only the cold usually escaped the worst of the effects on commerce.

Chicago, for example, has had temperatures near zero for weeks, but has had little snow. Retail sales, according to one big department store, are doing "fabulously" well. Much the same situation, both in weather and in retail trade, exists in Cleveland, where merchants are inclined to blame unemployment rather than weather for a slight dip in sales.

• **Help or Hindrance**—Around the country winter has had varied impacts on industries. Few companies were hurt except where employees couldn't get to work; some plants along the Boston-New York axis closed entirely for a day or two, but these were exceptions.

Wintry weather helps some businesses, or course. Hotels made money on commuters who couldn't get home. Sales of heating oil soared 10% or 20% above normal, and auto chains and snow shovels were completely sold out in some communities. Pan American World Airways, Inc., filled its Caribbean flights to 95% of capacity, with "a great many more" planes in the air than last year.

On the other hand, taxi operators lost money because of the snow; fares are based on mileage, and it's hard to run up mileage in a snowbound city. Auto dealers sometimes didn't bother to shovel their open-storage cars out of the snow; at least one dealer said that he was giving up hope until the thaw.

Lack of snow in Omaha caught the Omaha Steel Works with a lot more snow plows on hand than it could sell, yet in the East stores couldn't keep up with demand for anything of household size that would move snow. New Hampshire ski resorts have a lot of snow, and operators say revenues are 20% ahead of the best previous year, yet upstate New York areas that depend on New York City trade lost one or two of their best weekends—the Sunday skiers couldn't get transportation.

In New York, hardy theatergoers found that almost any very cold or stormy evening was the time to pick up seats for a hit show.

In the Midwest, at least one company suspended barge traffic on the Ohio River because of more than usual damage by ice floes. River traffic, like that on the Hudson River, was slowed near a standstill.

With half of it gone, that's the kind of winter it has been so far.

Profits Sag Despit

Dwindling margins brought corporate earnings down a bit from each quarter to the next. A turnaround is possible.

Anyone who thinks he can spot a dramatic upturn in corporate profits just around the corner will find scant support in the table to the right. It shows that over-all corporate profits, after taxes, suffered a decline in 1960 from their record-1959 peaks.

Some companies were able to show improvements in both sales and earnings. But they were in the minority. Actually, in most cases, sales held up remarkably well. Many companies—including General Motors, Air Reduction, Hooker Chemical, and Scott Paper, among them—chalked up records. But earnings, while good on a full-year basis, failed to keep pace.

• **Narrow Margins**—The trouble was quite clearly a sharp narrowing of profit margins. Most companies saw margins shrink from one quarter to the next, with the tightest squeeze evident in the last quarter. However, there are indications that the squeeze is letting up some, and if sales increase there could be a turnaround in profits.

That's the one big hope. The fact is that the sudden drop in profit margins after the last business recovery was one of the first indicators of a business slump in 1960. Starting in the last quarter of 1959, profit margins of many big corporations began to slip (BW—Feb.6'60,p54), and it sent a chill of concern through a number of financial analysts. The worry was justified. Only a handful of companies were able to buck the trend, and the fall in margins led to the over-all decline in earnings.

• **Ups and Downs**—Steel companies showed a mixed pattern, but did surprisingly well all told. A number of big companies, including Bethlehem Steel, Jones & Laughlin, and U. S. Steel were able to show year-to-year gains in net income. But some big companies and many smaller ones couldn't weather the sharp drop in their operating rate. Copperweld and Crucible took particularly bad beatings.

A similar mixture was evident among chemical companies. Allied and Hercules Powder showed increases, while Monsanto and Hooker had a drop in earnings.

The oil companies, though, snapped back after what had been weak years for many of them. Phillips Petroleum rang up a new high in earnings, $112.4-million, and many other oil companies, helped by surprisingly stable prices, managed to top 1959 performances—Standard Oil Co. (New Jersey), Standard Oil of California, and Continental Oil among them.

Inside the list, there were some notable ups and downs. International Harvester, with farm equipment sales down, suffered a sharp drop in earnings. It had net income of only $53.7-million last year, compared to $84.3-million in 1959. Deere & Co. suffered the same fate; its net dropped from $48.5-million to $17.8-million. On the more enviable side of the ledger, International Business Machines once again turned out a fine performance, earning $168.2-million, against $145.6-million the year before.

A number of small electronics companies also could point to a large percentage increase in their earnings. But some of their bigger competitors didn't have that fortune, as price softening in many lines held profits down.

• **The Totals**—Over-all, the peak for profits—and margins—came in the first quarter, when profits hit an annual pre-tax rate of $48.8-billion. They dropped to $45.7-billion in the second quarter, slid further to $41.5-billion in the third. Complete tallies on the fourth are not yet in, but it's a pretty safe bet that profits were down around the $40-billion mark.

This should put full-year earnings at $44.5-billion at best. In 1959, profits hit $47-billion pre-tax.

If the Treasury's current rosy estimates prove out, profits this year will hit $46-billion. Corporations will have to go some to reach that mark. Investors in the stock market apparently think they will (page 99), but profit margins don't as yet reflect that unbridled optimism. For while one can see profit margins stabilizing—or reaching bottom—in a good many cases, there is no strong indication of an across-the-board rise in profit margins soon. And sales are slipping. Thus the prospect is for a gradual rise in earnings—with sharp increases only in individual cases—rather than a dramatic upward surge.

• **Ready to Go**—Steelmakers and some oil companies appear to be in fine shape to take advantage of any spurt in volume. They have made big technological strides over the past few years, partly with an eye toward cost-cutting, and any increased volume should benefit earnings greatly.

There are a surprising number of companies, however, that haven't tried—or haven't been able—to initiate such savings. Some companies, it's true, are in the midst of an austerity program.

Still, as one institutional investor put it: "Too often, when we've been

Big Sales

told of cost-cutting, it's been of measures taken back in 1959—in the last recession. Companies report there isn't too much fat around."

How much truth there is to that view is another matter. In retrospect, it seems that the fast rise in margins in 1959 was only the temporary rise that historically follows a recession, the result of post-recession gains in volume combined with cost-cutting. But it also is apparent that the last business recovery was shorter in duration than its predecessors and didn't allow much time for fat-building. Still, there was enough so that when volume failed to make headway, profit margins—and net income—fell off fairly sharply.

• **Price Softness**—One reason this happened, too, was because of the general softness in prices. Profit margins have swung up dramatically in postwar business cycles chiefly because rising prices have given increased sales volume an extra fillip. But the non-inflationary steel pact of 1960, plus the lag in demand, put the brakes on any rise in prices. In fact, prices in many industries turned extremely soft as a result of intense competition.

Here and there, industrial prices have firmed. But in many areas, weakness persists. Westinghouse Electric, for example, warns that pressure on its earnings will increase in the first half of 1961 because of "inflation in material and employment costs coupled with the general price softening prevalent in our industry." National Distillers & Chemical also says its net declined because of a cost-price squeeze.

What makes prices so sensitive is that many companies that would like to hike prices to meet this squeeze are prevented by competition. A few weeks ago, du Pont had to cancel a 2½¢-a-lb. increase in polyethylene resin because its major competitor, Union Carbide, wouldn't go along.

• **Inventory**—This resistance to price increases means that industry will have to look elsewhere for an impetus to profit margins and earnings. It could come, as some economists expect, from a new burst of inventory accumulation.

As shortages have disappeared, industry has learned to live on a smaller sales-inventory ratio. Ordinarily it would take a little while for it to shed this new attitude toward inventories. But the growing sentiment among businessmen that the recession won't be catastrophic has made them bolder. This, plus the prevailing view that the Kennedy Administration is a spending administration—with a bias toward inflation—could make them act a lot more optimistically very soon.

A Sampling of Industrial Earnings

(in millions)	SALES 1959	SALES 1960	NET INCOME 1959	NET INCOME 1960	PROFIT MARGINS 1959	PROFIT MARGINS 1960
Air Reduction	$200.6	$202.5	$14.9	$14.7	7.4%	7.3%
Allied Chemical	719.7	765.8	50.0	51.3	6.9	6.7
American-Marietta*	323.6	368.1	22.8	24.4	7.0	6.6
American Photocopy*	24.8	29.8	3.2	4.3	12.9	14.4
AMP, Inc.	47.0	53.8	4.9	5.6	10.4	10.4
Armco Steel	1,022.4	938.0	77.1	70.5	7.5	7.5
Avco Corp.*	306.0	322.7	9.6	10.0	3.1	3.1
Bethlehem Steel	2,055.7	2,178.1	117.2	121.2	5.7	5.6
Caterpillar Tractor	742.3	716.0	46.5	42.6	6.3	6.0
Copperweld Steel	138.4	114.8	6.0	2.4	4.3	2.1
Crucible Steel	219.2	210.9	6.1	1.2	2.8	0.6
Deere & Co.	542.5	468.5	48.5	17.8	8.9	3.8
Douglas Aircraft*	884.0	1,174.0	(d)33.8	(d)19.4	..	..
Eagle-Picher Co.*	120.9	120.8	4.7	4.8#	3.8	4.0
Emerson Rad. & Phon.	67.4	63.8	2.7	1.7	4.0	2.7
Freeport Sulphur	53.2	53.0	14.5	13.2	27.3	24.9
General Motors	11,200.0	12,700.0	873.0	959.0	7.8	7.6
Granite City Steel	164.4	137.3	16.1	11.1	9.8	8.1
Heyden Newport Chem.	55.9	60.8	2.8	3.7	5.0	6.1
Hercules Powder	283.6	336.9	23.4	27.2	8.3	8.1
Hooker Chemical*	149.8	149.8	13.4	12.7	8.9	8.5
Inland Steel	705.1	747.1	48.4#	47.1	6.9	6.3
Int'l Business Mach.	1,309.8	1,436.1	145.6	168.2	11.1	11.7
Int'l Harvester	1,725.7	1,683.3	84.3#	53.7	4.9	3.2
Johns-Manville	377.6	365.2	31.6	26.5	8.4	7.3
Jones & Laughlin	765.7	778.8	29.5	33.2	3.9	4.3
Kennecott Copper	444.9	503.2	57.3	77.4	12.9	15.4
Libbey-Owens-Ford	306.7	294.1	53.7	43.8	17.5	14.9
Monsanto	875.0	890.5	74.8	67.7	8.5	7.6
National Biscuit	429.0	451.8	24.5	27.9	5.7	6.2
Nat'l Dist. & Chem.	578.3	580.2	26.3	21.4	4.5	3.7
Phillips Petroleum	1,179.2	1,228.0	104.6	112.4	8.9	9.2
Republic Aviation	198.1	207.7	3.4	4.7	1.7	2.3
Raytheon	494.3	540.0	13.5	11.5#	2.7	2.1
Republic Steel	1,076.8	1,053.9	53.9	52.8	5.0	5.0
Scott Paper	297.2	313.3	24.8	27.7	8.3	8.8
St. Regis	505.7	536.2	30.1	22.0	6.0	4.1
Smith, Kline & French	134.9	144.5	25.0	24.0	18.5	16.7
Standard Oil (Cal.)	1,794.7	1,921.0	253.6	266.0	14.1	13.8
Standard Oil (N.J.)	8,714.0	8,890.0	630.0	688.0	7.2	7.7
Union Tank Car	115.5	115.4	6.5	7.8	5.6	6.8
United Air Lines	330.2	379.1	13.8	11.1	4.2	2.9
U.S. Shoe	50.9	51.4	3.4	3.1	6.7	6.0
U.S. Steel	3,643.0	3,698.5	254.6	304.5	7.0	8.2
Westinghouse	1,910.7	1,955.7	85.9#	79.1	4.5	4.0

*Fiscal year ends Nov. 30. # including sizable special items

In Business

General Dynamics Moves to Lump All Its Civilian Electronics Work

General Dynamics Corp. this week moved to win a bigger share of the electronics market by lumping in a new division all its electronics activities that can be separated from major weapons systems. The new General Dynamics/Electronics will be formed around the nucleus of the old Stromberg-Carlson Div., and will be headed by J. D. McLean, S-C president.

General Dynamics is the nation's No. 1 defense supplier, but in the face of dwindling profits it wants to increase its commercial sales with their higher margins to a point where they provide half of net profits.

Kefauver to Study Consent Decrees As Curb on Antitrust Enforcement

Sen. Estes Kefauver's antitrust and monopoly subcommittee will take a look at the possibility that consent decrees have the effect of "narrowing the orbit of effective antitrust enforcement." The group may also investigate prices charged for hearing aids, Kefauver told the Senate.

Kefauver has criticized consent decrees signed by Eisenhower's Justice Dept., claiming that since the decrees give immunity to further antitrust prosecution they can operate as a serious barrier to enforcement

The senator reported that prices of hearing aids have been second only to drug prices in the volume of complaints his group has received.

Colbert Says Wife Formerly Owned 444 Shares in Minor Chrysler Supplier

Chrysler Corp. Chmn. L. L. Colbert added some footnotes to the company's conflict-of-interest story this week, while court action was postponed on the suit against Chrysler by former Pres. William C. Newberg (BW–Jan.21'60,p40).

Colbert answered a charge by stockholder Sol A. Dann by admitting that his wife once owned 444 shares in Dura Corp., a minor Chrysler supplier. He said she had sold the shares before last April when he told stockholders that no members of his family had any interest in Chrysler vendors or suppliers. Colbert also said he had reported his wife's holdings during the investigation of Chrysler executives last summer and fall.

Colbert also admitted that one of his sons had worked briefly a few years ago for Bonan Co., a Chrysler supplier partly owned by Newberg whose interest in this and another company led to his forced resignation June 30.

Chrysler's board of directors took the first step in an expected organizational change (BW–Jan.28'61,p42)–arising from the conflict-of-interest cases–when it created a top level committee to keep tabs on outside contacts of all personnel. The committee will enforce new, strict rules, taking over the responsibility from the immediate superior of each employee.

Mansfield Urges Copper Cartel "of Sorts" And World Parley to Stabilize Prices

A "cartelization of sorts" has been proposed in the Senate as a cure for the depressed price of copper. Sen. Mike Mansfield (D-Mont.), the Majority Leader, has also urged Pres. Kennedy to call an international conference to stabilize world copper prices along these lines.

The price of copper in recent weeks has dropped below 30¢ a lb., causing production cutbacks in the U.S. and other nations.

Spate of Airline Merger Talks Seen As CAB Smiles on United-Capital Union

The Civil Aeronautics Board's preliminary approval this week of the United-Capital airlines merger is expected to set off a flurry of merger talks among other airlines.

United, a transcontinental carrier with broad operations in the West but somewhat limited in the East, now picks up Capital's routes stretching from Northern New York to Miami and New Orleans. As the former second-ranking domestic airline, it moves into position to overtake American Airlines as the largest, and to offer a more formidable challenge than did nearly bankrupt Capital to Delta, Eastern, National, and other carriers in the East.

Industry sources predict the consolidation will touch off "defensive merger" moves that could lead to a revamping of the nation's air carrier system. CAB's quick approval of the United-Capital consolidation is viewed as a sign that it is ready to make a major policy shift–in favor of fewer, stronger airlines.

Republic Steel Exports Its Knowhow

U.S. steel producers, faced with the difficulty of selling high-priced steel abroad on a low-priced steel market, have found a bullish market for their knowhow instead.

The latest such deal came this week when Republic Steel Corp., a major stainless producer, signed an agreement for "mutual technical cooperation and assistance" with Colvilles, Ltd., a Scottish steel manufacturer.

Colvilles is building a $162-million steel strip mill at Ravenscraig, which will have a 500,000 long ton annual capacity. The agreement is clearly designed to help Colvilles develop and exploit this mill as expeditiously as possible.

WASHINGTON OUTLOOK

WASHINGTON BUREAU
FEB. 4, 1961

A BUSINESS WEEK SERVICE

Congress will take its own look at the "hour of peril" that Pres. Kennedy described this week in his State of the Union speech (page 13).

In the end, Congress will also write the cures as it sees fit, not as prescribed by Kennedy.

Kennedy's stress on national peril reminds political strategists of Franklin D. Roosevelt's "government by crisis" during the 1930s. But Roosevelt had the unifying effect of the Great Depression working for him. Professionals in both parties wonder whether Kennedy can create the sustained sense of urgency needed to get the 87th Congress moving his way.

Kennedy's problem shows in his treatment of the recession.

There's more confidence about business behind the scenes in the Administration than Kennedy allowed to show in his State of the Union speech.

Top Kennedy advisers say privately the economy may be moving at a satisfactory early recovery rate by midyear. Most of them want to wait until spring to make the next big policy decisions in the hope that the injection of $2-billion or so quick cash asked this week by Kennedy will be all the stimulation necessary. In short, Kennedy warns about a severe recession, but is moving against a mild one.

—•—

This is a deeply divided Congress—angry and uncertain.

Of the three power blocs, only the Northern Democrats are happy. They are elated over Kennedy's performance this week, first with the State of the Union speech, then with the anti-recession program. Southern Democrats, bruised by the bitter fight in the House over enlarging the Rules Committee, will fight Kennedy. Republicans will oppose Kennedy, too, but are moving cautiously.

Even GOP critics concede that Kennedy's speech stressing the dangers of economic slump and threats from abroad was a virtuoso performance. They admit he has a potent weapon in his televised press conferences, and will be able to rally considerable support from the country for his views.

Republican leaders are adopting a slowdown strategy. Their reasoning is that Kennedy will not be able to keep either the Democrats in Congress or the country keyed up indefinitely to a national peril pitch.

The Rules Committee battle leaves scars in both parties.

When Speaker Rayburn decided on a finish fight, Southern opposition to welfare and spending programs hardened. Southern Democrats have long regarded the Rules Committee, under Chmn. Howard W. Smith of Virginia, as their major weapon in the House. By insisting on adding three members, Rayburn sharply reduced Smith's power to block legislation.

In the end, two Southern governors helped get the votes Rayburn needed—Terry Sanford of North Carolina and Orval E. Faubus of Arkansas.

GOP ranks failed to hold, though the leadership appealed for a solid vote against enlarging the committee.

—•—

Early signs of friction show in the Administration.

Adlai E. Stevenson's troubles are the only ones out in the open, but other clashes are building up behind the scenes.

WASHINGTON BUREAU
FEB. 4, 1961

Stevenson, Kennedy's Ambassador to the United Nations, startled the White House by telling reporters he "guessed" Kennedy would be "delighted" to see Khrushchev if the Soviet leader comes to the U. N. this spring. Only a short time before, Kennedy had shown great reserve to the same idea.

Kennedy's reaction was swift. He had Pierre Salinger, White House press aide, announce that Stevenson was speaking only for himself.

Stevenson's performance puzzles diplomatic circles. He is known to place a higher priority on a Kennedy-Khrushchev visit than Kennedy himself, and he told reporters explicitly he was not speaking for the President. Thus he put himself in the role of a private citizen advancing his personal views, whereas his duty at the U. N. is to speak for Kennedy and the Administration. If this is a deep-rooted conflict in Stevenson's mind, his career may be short as U. N. Ambassador.

Other areas of tension: Commerce Secy. Luther H. Hodges wants to run the depressed areas program, but some of Kennedy's staff aides argue for a new agency. Kennedy says he will take either plan, but leans toward Hodges. Treasury Secy. Douglas Dillon thinks that taxing profits of U. S. corporations abroad as soon as they are earned might lessen the gold outflow. George W. Ball, Assistant Secretary of State for Economic Affairs, is completing a study that takes a dim view of the idea.

—•—

Kennedy adds another tax reform expert to the growing number occupying key roles in the Administration. Mortimer M. Caplin, 44-year-old tax lawyer and professor named to head the Internal Revenue Service, is in favor of taking away some of the special deductions now granted taxpayers. In exchange, he would like to cut the bottom bracket rate from the present 20% to 10%. He would also cut the top bracket rates from the present maximum of 91% to a top of 65%—and pay for it by closing some of the existing tax-escape devices.

Caplin wants to reduce tax cheating by reducing the incentive to cheat, and believes lower rates from top to bottom to be the first big step. He's also in favor of income averaging, a crackdown on special capital gains devices now in the law, and a cut in depletion allowances.

—•—

Does Kennedy have access to secret information about the state of the economy? And what about threats from abroad?

About the economy, the answer is no—there are no secrets available to Kennedy about business. His economists contemplate the same facts and indicators all economists are familiar with. Judgments differ, not data.

As to threats from abroad, Kennedy has access to secret reports of the Central Intelligence Agency and the Pentagon. But he has known a good deal about some of these for years as a member of the Senate, and he got briefings from CIA chief Allen W. Dulles during the campaign. So it's hard to see how he could be too surprised by anything he has learned since Inauguration Day.

Kennedy and the men around him are saying the dangers are greater than they thought. That is the political way of putting things. All new administrations practice it. Eisenhower did in 1953 in his more restrained and diffused way. Translated, what the New Frontiersmen are saying is that the **solutions are more difficult than they appeared to be from the outside.**

A good year for the Billion Dollar Banks

(dollar figures in millions)

	BANK	DEPOSITS 12-31-60	PERCENTAGE GROWTH IN DEPOSITS 1950-60	1955-60	1959-60	NET OPERATING EARNINGS REPORTED IN 1960	PERCENT INCREASE FROM 1959	LOAN-DEPOSIT RATIO 12-31-60
1	Bank of America	$10,806	+ 74.5%	+22.8%	+ 1.7%	$93.2	+ 8.0%	62.0
2	Chase Manhattan Bank	8,143	+ 32.4	+19.9	+ 8.2	74.3	+15.0	56.0
3	First National City Bank	7,771	+ 33.4	+20.1	+ 7.4	74.3	+ 9.3	54.8
4	Chemical Bank NY Trust	3,898	+ 27.7	+ 6.2	+ 5.0	40.9	+ 4.9	57.3
5	Morgan Guaranty Trust	3,646	+ 17.4	+ .5	+ 8.4	52.1	+17.9	64.5
6	Manufacturers Trust	3,465	+ 34.2	+17.2	+13.8	26.0	+10.2	44.2
7	Security First Nat. Bank	3,284	+ 92.9	+66.2	+ 2.1	29.1	+11.9	50.2
8	Bankers Trust	3,032	+ 29.5	+21.6	+12.1	32.3	+17.9	51.7
9	First Nat. Bank (Chicago)	2,776	+ 15.4	+ 2.1	+ 2.5	36.5	+14.4	63.5
10	Cont'l. Ill. Nat. Bank	2,482	+ 4.4	+ .3	+ 4.0	30.1	+15.8	57.9
11	Wells Fargo Bank Am. Trust	2,449	+ 64.5	+24.7	+ 2.7	19.4	+11.5	57.7
12	Irving Trust	1,999	+ 64.0	+28.3	+19.4	18.2	+18.2	48.8
13	Nat. Bank of Detroit	1,904	+ 47.1	+ 1.3	+ 6.6	18.2	+11.7	47.1
14	Hanover Bank	1,886	+ 16.6	+ 7.5	+18.8	18.5	+16.4	51.7
15	Mellon Nat. Bank	1,854	+ 23.8	+10.8	+ 5.8	24.7	+ 7.9	56.9
16	Crocker-Anglo Nat. Bank	1,687	+ 78.5	+24.0	+ 1.8	15.8	+19.7	58.0
17	First Nat. Bank (Boston)	1,615	+ 12.8	+ .1	+ .5	22.1	+ 8.3	56.5
18	Cleveland Trust	1,335	+ 15.7	− 1.3	+ .2	14.2	+17.3	62.5
19	California Bank	1,218	+154.3	+59.4	+ 1.8	9.4	+10.3	56.7
20	First Penna. Banking & Trust	1,119	+ 27.9	+13.7	+ 4.0	9.9	+12.6	59.3
21	First Western Bank & Trust	1,074	—	+34.4	+ 1.1	6.2	+ 4.2	56.7
22	Philadelphia Nat. Bank	1,049	+ 36.9	+15.3	+ 7.2	18.5	+22.5	50.8
23	Republic Nat. Bank	1,012	+152.4	+33.3	+10.8	10.0	+ 6.6	57.8

Data: BUSINESS WEEK

Big Mergers and Good Profits

Bank earnings are closely tied to the level of interest rates; they ought to go down when recession clouds gather and money rates drop. But, as the table above shows, that's not what happened in 1960. In fact, most banks made a better showing than many of their corporate customers.

Net operating earnings for the nation's billion-dollar banks were up sharply right across the board. True, the jump wasn't quite so big on a percentage basis as in 1959 when earnings were up an average of 14%-plus; this year the increase was closer to 12%. Even so, earnings at all the largest banks reached new peaks in 1960.

Banks owe their present prosperity to a number of factors, particularly to a fairly strong demand for loans at a time when borrowing rates were high. But banks recognize that they face strong competition—from other types of financial institutions, as well as from each other. So 1960 saw many changes in the banking map, with even more coming in the years ahead.

• **Steady Demand**—During most of the postwar period, banks have been able to show increased earnings simply because of the tremendous needs of corporations and consumers. They didn't have to fight hard to increase their loan portfolios. But in the last few years, they have had to scratch a little to keep on growing. For one thing, other financial institutions—chiefly savings and loan associations and mutual savings banks—offered their depositors bigger yields on savings. For another, finance companies of all sorts showed a flexibility that banks lack.

Now the banks are fighting back, with the prospect of further steps to improve their competitive position. This means not only new services, but even bigger amalgamations. Indeed, the 1960s may well mark a real breakthrough in branch banking, a breakthrough that has been building all through the 1950s.

I. Bank Rates Stayed High

There's no doubt that the good earnings of the banks in 1960 are largely due to the slowness of bankers to reduce their lending rates. Not until late August, months after open-market interest rates had dropped, did they cut their prime lending rate—the rate charged the biggest and best corporate borrowers—from 5% to 4½%.

The banks say they are still suffering from tightness. This shows up in the high level of the loan-deposit ratios in the last column of the table. Thus, if the economy turns up by midyear, the chances are that the prime rate will rise back to 5%. In fact, bankers say there is much more chance of an increase than a new decline, which would mean that bank earnings in 1961 ought to be even better than they were in 1960.

• **New Reserves**—The Federal Reserve's switch to aggressively easier money did have an effect on the banks. Largely due to two substantial injections of new reserves into the banking system through changes in Fed rules governing vault cash, bank deposits were on the rise last year. Two new members joined the list of the billion-dollar banks for the first time—Philadelphia National Bank and Republic National Bank of Dallas.

This contrasts with 1959, when only one new bank moved into the billion-dollar group, and the list of deposit changes was liberally sprinkled with

losses, particularly among the money market banks in the East.

In 1960, the biggest deposit gainers among the billion-dollar banks, on a year-to-year basis, were Hanover Bank and Irving Trust Co. in New York, which are both largely "wholesalers" catering to big business. The giant retail banking chains in California were held almost to a standstill in their quest for new deposits. A big factor here was competition from savings and loan associations, which, on the average, pay at least 1% more for individual savings accounts than commercial banks are allowed to pay. The top bank savings rate, fixed by the Federal Reserve, stands at 3%.

Competition from S&Ls and from mutual savings banks is hurting. In retaliation, commercial banks are now pressing for elimination of the tax advantages that the S&Ls and mutuals enjoy. Both S&Ls and mutuals can put aside, in a tax-free reserve, an amount equal to 12% of their share accounts or deposits—a provision that allows them to operate on a virtually tax-exempt basis.

II. The Trend to Mergers

For the city banks, 1960 was also marked by a greatly intensified trend to mergers.

The first break in that direction came last March, when the New York legislature, in an unexpected move, partially relaxed its curbs on branch banking. The legislature also allowed the "freeze" on expansion of bank holding companies to expire.

The upshot was a rush by the biggest New York City banks to establish a toehold in the suburbs by setting up branches that were now legal for the first time.

• **Slow and Costly**—The process of branching turned out to be a slow and costly way to get a stake in the explosive growth of the New York suburbs. Manufacturers Trust Co., which has New York's largest chain of branches, reported that it thought the suburbs were already "over-banked," and declined to apply for any branches outside the city limits. It became clear that to get maximum benefits from suburban branching, the city banks would have to join with existing suburban banks, either through a holding company or through direct merger.

The first proposal for a suburban acquisition by a New York bank came in September, when Bankers Trust Co. —sixth in deposits in the city and eighth in the nation—announced plans to join with County Trust Co., the largest in Westchester county, in a holding company.

Since September, merger proposals have come thick and fast:

• Manufacturers Trust and Hanover Bank said they planned to merge. This would not affect the suburbs, since both banks operate entirely within the city except for overseas offices, but it will have a big effect on bank competition in the New York money market, since it would unite a major retail bank (Manufacturers) with one of the few remaining wholesale banks (Hanover).

• Morgan Guaranty Trust Co., already the largest wholesale bank in the U.S., announced plans to set up a holding company to span New York State from end to end. This would probably create the nation's largest bank holding company, with assets of over $6-billion. Currently the No. 1 holding company is Firstamerica Corp., whose latest statement showed assets of $4.9-billion. Morgan Guaranty plans to join with Manufacturers & Traders Trust Co. in Buffalo, Lincoln Rochester Trust Co., National Commercial Bank & Trust Co. of Albany, First Trust & Deposit Co. in Syracuse, Oneida National Bank & Trust of Central New York, and First-City National Bank of Binghamton. All six upstate banks are active in retailing.

• **The Trend Spreads**—The New York banks weren't the only ones that became merger-minded during 1960:

In Chicago, Continental Illinois National Bank & Trust Co.—No. 2 in the city behind First National Bank—announced a merger with City National Bank & Trust Co. of Chicago. Had the deal gone through on Dec. 31, it would have added $392-million to Continental Illinois' $2.5-billion in deposits and would have pushed it ahead of First National. Final approval would mean that City National and its employees would have to move en masse into Continental's giant headquarters in the Loop, since Illinois prohibits all forms of branch banking.

In Philadelphia, in another move that would upset traditional leadership, Philadelphia National Bank is bidding to combine with Girard Trust Corn Exchange Bank. The merger would give Philadelphia National about $2-billion in assets, clearly the biggest in its area and topping First Pennsylvania Banking & Trust Co. by a wide margin. In addition, the branch system of the projected Philadelphia Girard National Bank & Trust Co. would blanket the Philadelphia metropolitan area.

In Boston, State Street Bank & Trust Co. plans to absorb Rockland-Atlas National Bank, in a move that would supplant National Shawmut Bank as the second largest in Massachusetts. The merged bank would have $530-million in deposits, compared to National Shawmut's $452-million. However, First National Bank of Boston would remain far out in front.

All this adds up to six major proposals for mergers or bank holding companies —each of them bound to have a major impact on competition—now pending before federal and state regulator authorities. Any one of the states involved may throw up a roadblock. However, it is much more likely that the tone will be established by Washington, primarily because of the new federal bank merger law.

• **Jurisdictions**—This law clearly spells out which federal agencies have jurisdiction over which bank mergers, and enumerates factors that the agencies must consider in weighing margers. National banks are under the Comptroller of the Currency; state-chartered banks of the Federal Reserve System have to go to the Fed for an O.K.; other insured state-chartered banks—most of them very small—come under the Federal Deposit Insurance Corp. Bank holding companies, under a separate law passed in 1956, must get Federal Reserve approval.

The really important new twist in the law of last May is that for the first time all three agencies, plus the Justice Dept.'s Antitrust Div., must consult on the competitive factors involved in mergers. It is thought that the Kennedy Administration may seize this opportunity to set up new criteria on how far banking concentration should be allowed to go.

• **Upstate**—It's true that some of the proposals put a good many banking eggs in one or two baskets. In New York, the proposed Morgan New York State Corp. would have just under a quarter of all the state's bank deposits outside of the New York metropolitan area.

Since Marine Midland Corp., up to now New York's only state-wide bank holding company, already has a roughly similar proportion of upstate deposits, the Morgan deal would mean that two bank holding companies would control about half of all upstate bank deposits. On the other hand, none of the upstate banks that hope to join Morgan Guaranty are in direct competition with each other, which means that antitrust problems may be avoided.

Just the same, Washington's traditional foes of bigness in banking are unlimbering their guns to attack the mergers. Rep. Emanuel Celler, the Brooklyn Democrat who rules the House Judiciary Committee, has assailed the Morgan proposal much as he attacked the 1959 merger of J. P. Morgan & Co., Inc., with the Guaranty Trust Co.—that time with little apparent effect. Rep. Wright Patman (D-Tex.) has commissioned a lengthy study for the House Select Committee on Small Business seeking to show that big bank mergers reduce the credit available for small business. END

Down for Month, Up for Year

MEASURE OF PERSONAL INCOME

STATE	1953-55 AVERAGE	NOVEMBER 1959	OCTOBER 1960	NOVEMBER 1960	% CHANGE VS. YEAR AGO
	Millions of Dollars	(Seasonally Adjusted)			
Alabama	$286.4	$350.4	$386.8	$381.6	+ 8.9%
Alaska	41.9	47.1	48.1	49.5	+ 5.1
Arizona	126.9	198.1	240.0	229.0	+15.6
Arkansas	153.5	181.0	209.1	193.4	+ 6.9
California	2,341.7	3,461.0	3,833.0	3,831.3	+10.7
Colorado	217.2	306.2	341.9	343.6	+12.2
Connecticut	440.7	576.2	627.1	604.1	+ 4.8
Delaware	78.6	109.4	128.3	129.1	+18.0
District of Columbia	158.2	184.4	198.6	200.6	+ 8.8
Florida	456.8	821.6	906.3	897.0	+ 9.2
Georgia	383.2	487.2	537.7	509.1	+ 4.5
Hawaii	76.0	109.8	114.4	114.2	+ 4.0
Idaho	74.5	92.3	93.5	90.9	− 1.5
Illinois	1,677.5	2,142.3	2,270.3	2,246.2	+ 4.8
Indiana	663.5	788.7	886.2	874.9	+10.9
Iowa	357.3	433.1	493.8	478.6	+10.5
Kansas	281.8	332.1	382.3	378.4	+13.9
Kentucky	307.1	379.1	389.5	396.1	+ 4.5
Louisiana	318.3	407.0	442.9	423.1	+ 4.0
Maine	112.8	144.3	150.6	148.7	+ 3.0
Maryland	432.3	587.1	623.0	617.4	+ 5.2
Massachusetts	799.8	1,019.9	1,102.7	1,074.6	+ 5.4
Michigan	1,234.1	1,408.3	1,557.1	1,604.7	+13.9
Minnesota	434.8	550.3	623.0	617.2	+12.2
Mississippi	160.9	185.6	192.0	184.4	− 0.6
Missouri	600.9	766.9	823.0	813.3	+ 6.1
Montana	92.3	97.2	116.3	111.7	+14.9
Nebraska	182.5	226.4	255.0	253.1	+11.8
Nevada	43.1	63.1	73.4	73.8	+17.0
New Hampshire	75.2	99.8	100.7	99.3	− 0.5
New Jersey	982.9	1,309.4	1,332.5	1,384.7	+ 5.8
New Mexico	91.8	135.4	151.8	143.8	+ 6.2
New York	2,887.9	3,771.1	3,901.0	3,911.0	+ 3.7
North Carolina	429.0	518.0	568.0	571.3	+10.3
North Dakota	67.4	71.7	90.6	89.0	+24.1
Ohio	1,476.3	1,801.3	1,980.5	1,956.5	+ 8.6
Oklahoma	268.5	334.8	356.1	357.0	+ 6.6
Oregon	249.8	317.6	325.4	324.2	+ 2.1
Pennsylvania	1,678.6	1,998.5	2,128.3	2,112.0	+ 5.7
Rhode Island	129.9	151.3	162.2	158.0	+ 4.4
South Carolina	210.0	253.9	274.0	281.7	+10.9
South Dakota	73.7	80.7	94.4	94.7	+17.3
Tennessee	345.9	432.5	469.7	466.6	+ 7.9
Texas	1,132.9	1,469.4	1,567.7	1,571.7	+ 7.0
Utah	98.1	124.4	149.0	150.4	+20.9
Vermont	45.9	57.5	60.7	59.9	+ 4.2
Virginia	383.3	585.7	623.5	618.0	+ 5.5
Washington	418.0	526.5	546.9	550.3	+ 4.5
West Virginia	209.7	248.6	263.6	261.0	+ 5.0
Wisconsin	528.2	687.7	720.1	722.4	+ 5.0
Wyoming	45.9	55.8	57.5	56.6	+ 1.4
NATION	$24,363.5	$31,487.7	$33,970.1	$33,809.7	+ 7.4%

November, 1960, preliminary; October, 1960 and November, 1959, revised.

November incomes dropped 0.5% below October's but rose over year-ago. Farm and copper mining states gained the most.

When the business slowdown started last spring, its influence was confined to durable goods. By November, other industries had begun to feel the pinch.

Twelve of the 21 major manufacturing industries reported either larger-than-usual declines or job cutbacks instead of the customary gains from October to November. In addition, the rise in trade employment that marks the usual buildup to the Christmas selling season was less than average.

These contra-seasonal factors, combined with shorter work weeks in several industries, resulted in a drop of 0.5% in BUSINESS WEEK's Measure of Personal Income from October to November. Over the month, incomes slipped in 34 states.

• **Year-to-Year Gain**—A more cheering picture emerged in the year-to-year comparison. For the nation as a whole, incomes in November, 1960, gained 7.4% over the comparable month a year earlier. Notable gains centered in farm areas and copper mining states.

Receipts from bumper crops more than offset smaller livestock marketings in most farm states. Iowa, Kansas, Nebraska, Wisconsin, Minnesota, North and South Dakota, North Carolina, and Texas posted healthy increases over 1959 cash receipts. That was a result of an exceptionally good spring wheat crop, improved prices for hogs, eggs, and turkeys, a fine tobacco and soybean harvest, and a later-than-usual cotton harvest in the Southwest.

• **End of Strikes**—Much of the improvement in the copper mining states came from the ending of the strike that idled miners from August, 1959, through February, 1960. Although copper mining employment remained below earlier peaks due to the general slowdown in metalworking industries, work forces in Arizona, Utah, New Mexico, Nevada, and Montana were at least double those of last year.

For the first time since July, recovery from the steel walkout was no longer a factor in the big industrial states, for most steel plants were back in production by mid-November, 1959. In fact, steel payrolls were substantially lower in November, 1960, because of the low operating rate.

In most industrial areas, the effect of layoffs was cushioned by increased unemployment benefits. END

In Washington

MORE NEWS ABOUT GOVERNMENT ON:

• P. 40—The face of the new Administration: some decision makers.

• • •

Senate Report Urges Federal Government Set Up Major Water Development Program

Public and private spending of some $200-billion for water development by the year 2000 is foreseen in a long-awaited report by the Senate Select Committee on National Water Resources.

The committee, headed by Sen. Robert S. Kerr (D-Okla.), predicts that nuclear reactors will offer little competition to conventional electric power generation. Hydroelectric and steam-plant generation are top users of water in the U. S. now, and will continue to be through the turn of the century, the report asserts.

The Kerr committee says the federal government should take a greater hand in marshaling the nation's rivers and reservoirs for all kinds of development.

Among major recommendations: **The federal government in cooperation with the states should prepare and maintain comprehensive development and management plans for all major river basins,** including prospective water demands and projects requiring Congressional authorization. Federal and state governments should encourage efficient water use and development through flood plain regulation and immediate studies of regions where water shortages will be most acute by 1980 and of needs for major reservoirs. Public hearings should be held so state, local, and business interests can participate.

Also, **Washington should set up a 10-year program of financial aid to states for development of comprehensive water plans—a minimum of $5-million annually during the period;** and plans should be laid for a coordinated scientific water research program.

• • •

NASA Gets Administrator, Not a Scientist, To Guide Non-Military Space Development

James E. Webb, an administrator, not a scientist, has been appointed to head the National Aeronautics & Space Administration, the federal agency charged with the non-military aspects of space development.

The appointment represents a victory for Vice-Pres. Lyndon B. Johnson and Sen. Robert S. Kerr, both active in Senate space matters, who plugged for the administrator approach, and who backed Webb.

Webb, no stranger to government, was Harry S. Truman's Director of the Budget and Under Secretary of State. He is president of Educational Services, Inc., a nonprofit organization for the improvement of high school science teaching, a director of McDonnell Aircraft Corp., and assistant to the president of Kerr-McKee Oil Industries, Inc.

Webb, 54, is a North Carolinian, who attended the University of North Carolina and George Washington Law School.

Dr. Hugh L. Dryden, Deputy Administrator of NASA, will continue in that capacity under Webb. Dryden served as acting administrator during the government changeover following the departure of Dr. T. Keith Glennan.

Also, Robert A. Wallace, 40, has been named an economic adviser to Treasury Secy. Dillon. He was staff director of the Senate Banking & Currency Committee for several years and was an economic consultant to Kennedy during the Presidential campaign.

• • •

Martin Co. Presses Subcontractors To Cut Missile Costs Still Further

Defense contractors on production-line missile contracts are being squeezed to cut prices and, in turn, are putting the squeeze on their own subcontractors.

Martin Co., for example, called together its subcontractors last December and told them to come up with a 30% cost reduction on components going into its Bullpup missile. Several companies have already answered with 15% to 20% cost reductions, without change in components supplied. Martin expects similar action by most of its subcontractors on that missile.

Martin, the prime contractor, has reduced Bullpup production costs by upward of 50% in the two years it has been in production. Its latest action reflects the lengths to which contractors are going to hang on to defense contracts during a growing dollar pinch.

• • •

Two Railroads Lose First Round In Fight to Acquire Barge Line

Railroads have suffered a setback in their drive for government sanction to own and operate competing forms of transportation. An Interstate Commerce Commission examiner ruled against an application by the Illinois Central and Southern Pacific RRs to buy John I. Hay Co., a barge line operating along the Mississippi and its tributaries.

At present, the railroads' authority to move into truck, barge, and airline operations is sharply restricted. The rail lines are putting up a vigorous battle for the so-called "common ownership" principle (page 56).

They argue that because the competing modes of transportation benefit from government subsidies for highways, waterways, and airways operations, the railroads suffer a competitive disadvantage that can be overcome only by allowing them to diversify into other fields of transportation. The Hay case is a major test of that argument.

Examiner Hyman J. Blond said he would approve the acquisition only if stringent safeguards were imposed. The main one would prevent Hay from hauling freight that did not have a prior or subsequent rail movement.

Blond's decision will be appealed to the full 11-man commission and probably will wind up in the courts.

The Face of the New Administration –So

Making Decisions On Business Matters

JOHN E. HORNE, 53, Administrator, Small Business Administration. Administrative assistant to Sen. John Sparkman since 1947, except during 1951-53 when he was administrator of Small Defense Plants Administration, predecessor to SBA.

JAMES J. REYNOLDS, 58, Asst. Secretary of Labor. Vice-president for Operations of Alco Products, Inc., and member of National Labor Relations Board 1946-52. He was a Navy commander in World War II.

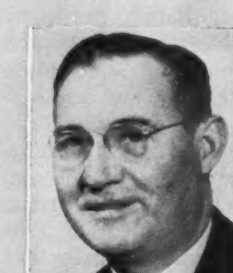
CARLISLE P. RUNGE, 40, Asst. Secretary of Defense (Manpower). University of Wisconsin law professor since 1951, before that, Assistant U. S. Attorney. Was a major in World War II, now commander of a National Guard unit.

CHARLES J. HITCH, 51, Asst. Secretary of Defense (Comptroller). Chief of the Research Council of Rand Corp., a Rhodes scholar, author of Economics of Defense in the Nuclear Age. He held several wartime government posts.

THOMAS D. MORRIS, 47, Asst. Secretary of Defense (Supply & Logistics). Was assistant director of the Budget Bureau, former Deputy Asst. Secretary for Supply & Logistics, and special assistant to Deputy Secretary of Defense.

EDWARD GUDEMAN, 54, Under Secretary of Commerce. Had a career with Sears, Roebuck & Co., resigned as vice-president in 1959. A partner in Lehman Bros., investment banking firm. He is a merchandising expert.

HERSCHEL C. LOVELESS, 49, member of Renegotiation Board. Two-term Democratic governor of Iowa, defeated last fall in bid for U. S. Senate seat. He was mayor of Ottumwa 1949-53, and owner of a municipal supply business 1953-56.



JOHN MOORE, 57, Administrator, General Services Administration. Vice-president of University of Pennsylvania since 1954. Before that held government posts including regional official of War Production Board and Philadelphia office of GSA.

Some Decision Makers

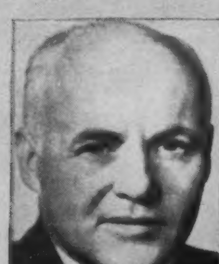
Making Decisions On Military Matters

JOHN B. CONNALLY, 43, Secretary of the Navy. He is a long-time aide to Vice-Pres. Lyndon Johnson, and a practicing attorney in Ft. Worth, Tex. He is co-executor of the estate of Texas oilman Sid W. Richardson.

PAUL B. FAY, Jr., 42, Under Secretary of the Navy. Executive vice-president of Fay Improvement Co., a heavy construction company. He commanded a PT boat in Pres. Kennedy's squadron. Was chairman of Local Citizens for Kennedy.

KENNETH E. BELIEU, 47, Asst. Secretary of the Navy (Materiel). He was staff director of Senate Space Committee, before that a staff member of Senate Armed Services Committee. A former Army officer, he held various Pentagon jobs.

ELVIS J. STAHR, JR., 44, Secretary of the Army. President of University of West Virginia. Special assistant to Army Secy. Frank Pace during Korean War, served on Kennedy's depressed areas task force. Combat officer in World War II.



EUGENE M. ZUCKERT, 49, Secretary of the Air Force. A Washington attorney specializing in atomic energy affairs. Was assistant to Stuart Symington in OCD Surplus Property Administration, Asst. Secretary of Air Force, member of AEC.

Making Decisions On Foreign Matters

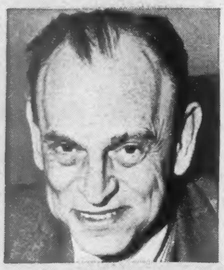
JOHN M. LEDDY, 46, Asst. Secretary of the Treasury for International Affairs. Was special assistant to Douglas Dillon when Dillon was Under Secretary of State. He advocates generous trade and aid policies, support of European Common Market.

FRANK M. COFFIN, 41, Director, Development Loan Fund. Lawyer, two-term congressman from Maine, on House Foreign Affairs and Joint Economic Committees, member of House liberal bloc. Was candidate for governor of Maine last year.

HENRY R. LABOUISSE, 57, Director, International Cooperation Administration. Consultant to World Bank, served with State Dept., Mutual Security Agency, directed U.S. relief work in Palestine. Has conservative approach to foreign aid.

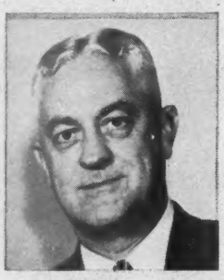
Face of the New Administration (continued)

On Regulation of Business



JAMES M. LANDIS, 61, Special Asst. to President for Regulatory Agencies. New York lawyer, former chairman of SEC and of CAB, and member of FTC. He will draft proposals to speed administrative decisons, curb improper influence.

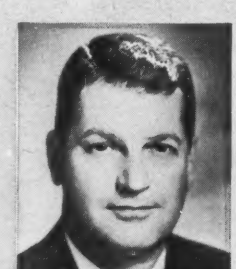
MORTIMER CAPLIN, 44, Commissioner of Internal Revenue. Professor at University of Virginia. He favors cutting tax rates on highest and lowest income groups, closer scrutiny of expense accounts, and increased auditing.



JOHN W. BUSH, 51, member of Interstate Commerce Commission. Ohio director of commerce, before that director of purchasing. He was a cabinet member in Ohio longer than any man in Ohio history. Formerly ran his own accounting firm.

NEWTON MINOW, 34, Chairman, Federal Communications Commission. Relatively inexperienced in broadcasting, brings "fresh look" to FCC problems. Law partner of Adlai Stevenson, assistant to Stevenson when he was Illinois governor.

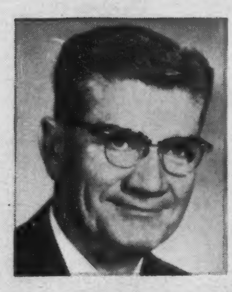
JOSEPH C. SWIDLER, 53, Chairman-to-be, Federal Power Commission. A Nashville lawyer since 1957, before that lawyer with the Tennessee Valley Authority for 24 years. He favors active development of both public and private power.



HOWARD MORGAN, 46, member of Federal Power Commission. Part owner of Portland (Ore.) construction firm, State Public Utilities Commissioner 1957-59, former State Democratic chairman. Has reputation as public power advocate.

NAJEEB E. HALABY, 45, Administrator, Federal Aviation Administration. Los Angeles attorney and financier, secretary-treasurer of Aerospace Corp., which serves as consultant firm on missiles and space. Was Navy test pilot in World War II.

On Public Works



JAMES K. CARR, 46, Under Secretary of the Interior. Was unsalaried chairman of California Water Commission, and assistant general manager of Sacramento Municipal Utilities District. Is a former staff member of House Interior Committee.

REX WHITTON, 62, Federal Highway Commissioner. Served 40 years with the Missouri Highway Dept., was chief engineer since 1951.

Air Express has priority . . . in the air and on the ground

It doesn't matter whether your product is large or small . . . travelling 300 miles or 3000. The moment you call AIR EXPRESS (and one call is all it takes), the nation's largest air-ground shipping service is on your team. That means your shipment gets top priority on all 35 scheduled U. S. airlines—first on, first off. It's picked up and delivered—door-to-door—by a special fleet of 13,000 AIR EXPRESS trucks, many radio-dispatched. And it always gets the kid-glove handling it deserves, to 23,000 communities in all 50 states. These are just some of the reasons why, more than ever, it pays to think fast, think AIR EXPRESS first.

AIR EXPRESS

CALL AIR EXPRESS DIVISION OF R•E•A EXPRESS • GETS THERE FIRST VIA U. S. SCHEDULED AIRLINES

Liquor Sales Break a 15-Yea

Shifts in Liquor Consumption by Types

(Percent of Total Liquor Consumption)

TYPE	1960*	1959	1949
Spirit Blends	31.6%	32.1%	66.2%
Straights	26.0	26.1	8.7
Bonds	4.1	4.5	5.4
Scotch	7.9	7.6	4.4
Canadian	5.2	5.1	2.7
Other	0.3	0.3	0.4
TOTAL WHISKEY	**75.1**	**75.7**	**87.8**
Gin	9.1	9.2	7.1
Vodka	7.7	7.1	0.0
Cordials	3.7	3.5	2.2
Brandy	2.4	2.5	1.3
Rum	1.6	1.6	1.3
Other	0.4	0.4	0.3
TOTAL NON-WHISKEY	**24.9**	**24.3**	**12.2**

*Estimated

	1960*	1959	1949
TOTAL CONSUMPTION (Wine Gallons in Millions)	232.0-233.0**	225.5	169.5

**Includes: Oklahoma and Hawaii

Liquor sales at retail finally set a new record of an estimated 232.5-million gallons in the U.S. last year. It took the industry nearly 15 years to top the previous record of 231-million gallons, set in the postwar restocking year of 1946.

The new record has more than statistical significance. It refutes the widespread theories of a few years ago that the distilling industry (cover) was at best stagnant, at worst sick. The picture above, which arrays some of the leading brands, and the tables on these pages give evidence of the industry's new vitality:

• The leading brands, which give the industry's stability and profits such a lift, more than held their own this year. Their sales volume increased by a healthy margin.

• More strong brands are emerging in the growing diversity of consumer tastes. Categories such as vodka, Scotch, and Canadian continued to gain at the expense of blended straight whiskeys.

• New company names achieved the kind of sales volume that puts them on BUSINESS WEEK's exclusive listing of leading brands. This year, Buckingham Corp. and American Distilling Co. made the list for the first time.

How the Leading Liquor Brands Sold in 1960

BRAND	NO. OF CASES (in thousands)	DISTILLER	TYPE
WHISKEY:			
Seagram 7 Crown . . .	7,200	Seagram	Blend
Seagram VO	2,300	Seagram	Canadian
Imperial	2,250	Walker	Blend
Old Crow	2,200	National	Bond & Straight
Canadian Club	2,050	Walker	Canadian
Calvert Reserve	1,800	Seagram	Blend
Schenley Reserve . . .	1,800	Schenley	Blend
Jim Beam	1,700	Beam	Straight
Early Times	1,425	Brown-Forman	Straight
Corby's Reserve	1,375	Walker	Blend
Ancient Age	1,375	Schenley	Straight
Fleischmann Preferred	1,250	Fleischmann	Blend
Four Roses	1,200	Seagram	Blend
Old Taylor	1,175	National	Bond & Straight
Kessler	1,000	Seagram	Blend
Ten High	1,000	Walker	Bond & Straight
Old Sunny Brook	950	National	Blend & Straight
P.M.	900	National	Blend & Straight
Kentucky Gentleman.	800	Barton	Straight
Carstairs	800	Seagram	Blend
Black & White	800	Fleischmann	Scotch
Old Hickory	775	Publicker	Bond & Straight
Ballantine	750	21 Brands	Scotch
Old Grand-Dad	725	National	Bond & Straight
Old Thompson	700	Glenmore	Blend
Cutty Sark	650	Buckingham	Scotch
Hill & Hill	625	National	Blend & Straight
Echo Spring	575	Schenley	Straight
Bourbon Supreme	525	American	Straight
GIN:			
Gilbey's	1,600	National	
Gordon's	1,600	Renfield	
Fleischmann's	1,050	Fleischmann	
Seagram's	800	Seagram	
Hiram Walker	800	Walker	
VODKA:			
Smirnoff	1,950	Heublein	

Record

• For most distillers, profits maintained the climb of the past few years. This fact has not been lost on the financial community, which now regards distillers' stocks as respectable growth issues.

• **Gains Come Harder**—The industry itself is taking a conservative view of the future. Most marketing research men on distiller staffs say over-all sales may slip back from the new peak attained last year. They feel the industry has reached a plateau.

It may be 1963 or 1964 before the industry can scale a higher peak, says Robert Soderman, market research director for James B. Beam Distilling Co.

As in most other industries, the immediate worry is the recession. Liquor is a hardier industry than it used to be—time was when a sneeze in the general economy meant pneumonia in the distilling business. Since then, more people have become consumers of liquor, and they have a cushion of more discretionary-spending dollars than liquor buyers used to have. Yet an economic downturn has its unsettling effects on the industry.

• **Reaction to Slump**—In a mild downturn, and that's what everyone in the industry expects this one to be, consumers continue to spend their discretionary dollars on liquor. But they do economize, often in small and unpredictable ways.

Figuring out the consumer's small-change thinking can mean a lot of money to a distiller. Brown-Forman Distillers Corp. estimates, for example, that the industry lost about 6-million gallons in sales during the 1957-58 recession, but the extraordinary shifting from one brand to another involved many times that volume of liquor.

Brown-Forman theorizes that, in a recession, the consumer sticks close to his regular price bracket but shades his buying to a brand in that category that may be a few cents cheaper. The company says such recession behavior may now be benefiting two cheaper bourbons, Hiram Walker & Sons, Inc.'s Ten High and American Distilling's Bourbon Supreme.

Other distillers suggest that a consumer changes his buying habits more drastically, dropping several notches down the price scale or even switching from, say, bourbon to gin.

Joseph E. Seagram & Sons, Inc., disagrees with both theories. It contends

that the consumer remains true to his brand but buys less of it. The quart buyer takes a fifth instead; the buyer of fifths turns to pints; the bar patron may drink at home where it's cheaper.

• **Different Sizes**—It's possible that the consumer will get even more flexibility for moving up and down the size range in 1961. Late last year, Schenley Industries, Inc., stirred controversy by proposing the legalizing of several new sizes of liquor bottles, such as one-third and one-sixth of a gallon. It referred to consumer surveys that it said showed a desire for greater diversity in package sizes.

The shift to the smaller sizes, which are proportionately higher priced than the big bottles, would help to solve a problem that faces all distillers—the inability to raise prices. But most of the industry opposes the Schenley proposal because it would add more stock to the dealers' already heavily laden shelves. A ruling is expected from the Treasury Dept.'s Alcohol & Tobacco Tax Div. in a few months.

• **Test of Strategy**—Consumer behavior in the current recession will test all the distillers' pricing theories.

Brown-Forman has concentrated on a line of higher-priced products such as Old Forester, Jack Daniels, the Early Times; Seagram, too, has strongly promoted its higher-priced brands.

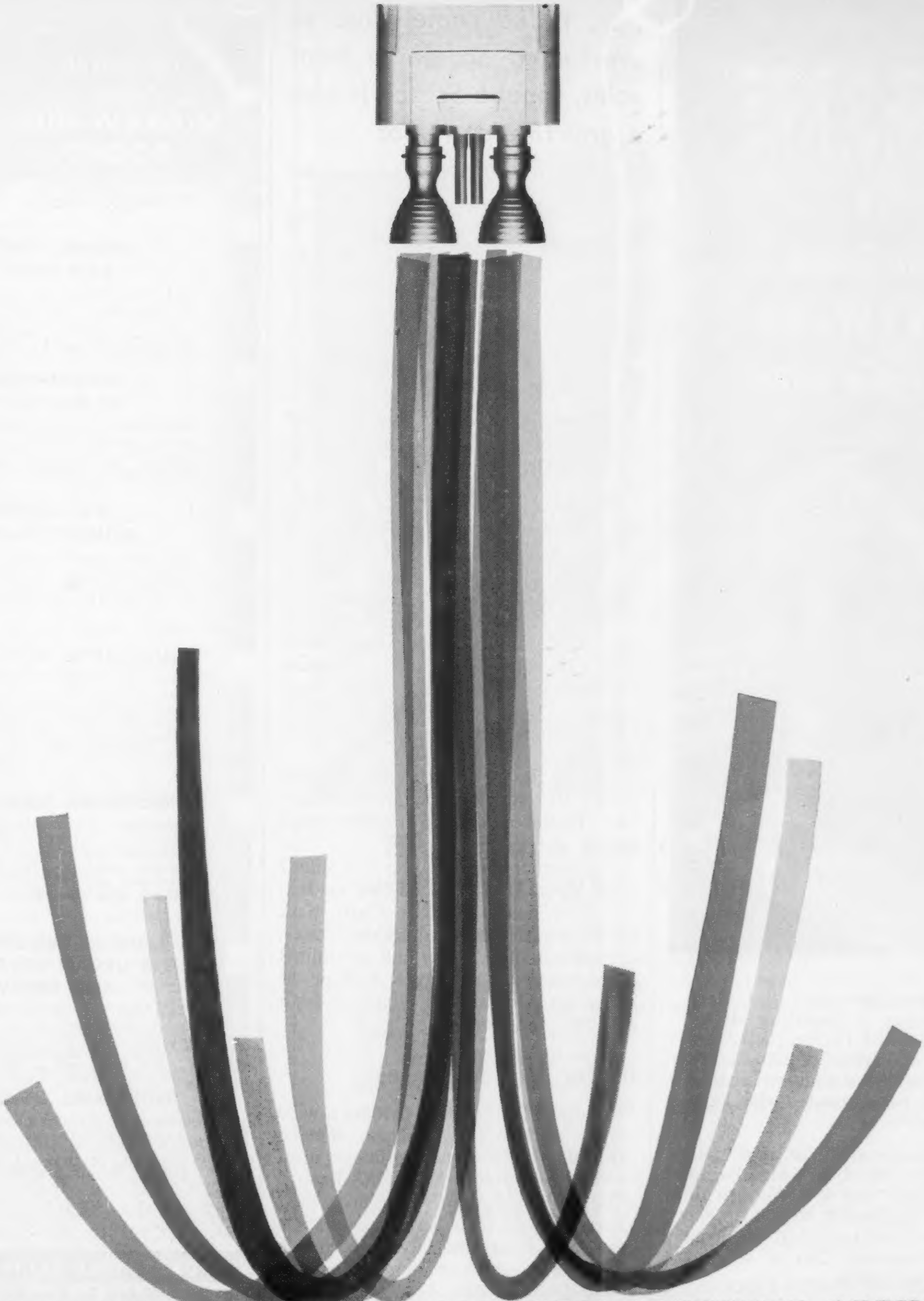
On the other hand, National Distillers & Chemical Corp. offers at least one established brand of bourbon in each of the principal price brackets, and Beam has a similar price span in its Jim Beam bourbons. These companies hope thus to retain any customers who are working their way down the price ladder.

• **Depressed Class**—Industry authority Clark Gavin calls attention to the class nature of the recession so far, with unemployment hitting harder at certain groups, such as the Negroes. The economic condition of Negroes has special importance for the liquor industry; substantial volume is at stake.

Barton Distilling Co. reports an example of this effect in the important Negro market of Baltimore. The company notes a sizable decline in sales of its half-pints of Kentucky Gentleman at $1.42 but a doubling of its sales of quarter-pints at 77¢.

I. The Sales Leaders

As it has for years, Seagram's 7 Crown continued to tower over the rest of the whiskey brands, and it did it more impressively than ever. For several years, its industry-leading sales have been static or sometimes slipping slightly; this year it broke out with a 200,000-case increase in BUSINESS WEEK's estimates. Seagram had shifted its advertising pitch from the bottle



ROCKETS ZOOM...THANKS TO COLUMBIA-SOUTHERN CHEMICALS

Our country's missile and rocket program relies heavily on basic chemicals. Hydrazine, the high weight-to-energy fuel, is derived from ammonia. Soda ash and caustic soda are used in producing aluminum, the metal so highly favored for rocket and missile construction. And many of the intricate metallic mechanisms that go into the mighty "birds" are degreased with the solvent, trichlorethylene. Columbia-Southern supplies these and other basic chemicals to leading organizations in virtually every manufacturing and processing industry. Over the years, discriminating buyers have found that they like doing business with Columbia-Southern. You will too.

columbia southern chemicals

CHEMICAL DIVISION

PITTSBURGH PLATE GLASS COMPANY

ONE GATEWAY CENTER PITTSBURGH 22, PENNSYLVANIA

. . . vodka came close to overtaking Scotch in total sales, though Scotch is also a growth-type liquor . . .

(STORY on page 44)

itself to the place of 7 Crown among the social aspects of drinking.

Hiram Walker's Ten High straight bourbon scored the most impressive gain of any American whiskey brand. The brand jumped onto BUSINESS WEEK's list for the first time with sales of about 1-million cases. Admittedly, Ten High gained this one-year growth by virtue of low-profit pricing, but Hiram Walker is pleased that it established wide distribution unusually fast.

• **Smaller Gainers**—Many of the sales gains by brands last year were made by the smaller distillers or the independents. Beam's Jim Beam, Fleischmann Distilling Corp.'s Fleischmann Preferred, Barton's Kentucky Gentleman, and Publicker Industries, Inc.'s Old Hickory showed respectable 50,000-case gains over last year's ratings. Glenmore Distilleries Co.'s Old Thompson reappears on the list this year.

Among the big distillers' brands, Seagram's VO and Kessler and National's Old Taylor racked up notably good gains.

Buckingham, an importer that didn't even appear on last year's list, made a one-third increase in its Cutty Sark Scotch, to an estimated 650,000 cases.

Heublein, Inc.'s Smirnoff continued to outdistance all other vodkas, as vodka again led all liquor types in both absolute and percentage gains.

II. For Varied Tastes

The public's growing taste for a wide variety of liquor types again affected sales rankings by types, although most of the earlier trends have slowed somewhat after apparently running their course. Vodka came close to overtaking Scotch in total sales, although Scotch itself is a growth-type liquor. However, many distillers seem disenchanted with vodka.

With its Smirnoff brand, Heublein (BW—Sep.17'60,p150) controls about 90% of the top-price market, while no brand has been able to establish a strong position in the lower-price markets. The low-price vodkas have been harassed by severe price-cutting. Several distillers say they're reconsidering whether or not to stay in this area of profitless prosperity.

• **Scotch Looms**—Scotch whisky rang up the second-best gains last year, and the field has developed some real

volume sellers. Two years ago, only one brand name made the list of leading liquors; this year three brands appear on the list.

Problems are rising for Scotch, though. It was once exclusively a premium-priced type of liquor; now it has entries in the below-$5 group. Barton even brought out a brand this year that sells for around $4 in the Chicago area.

According to rumors from the Highlands, the chronic scarcity on which Scotch is priced high may have given way to an actual oversupply of Scotch on hand and an overcapacity for producing more of it. Perhaps as a result of this situation, more Scotch is starting to enter the U.S. in bulk, for bottling here and sale at lower prices.

Canadian whiskey, also growing in popularity, may also have a harder time maintaining its place among premium-priced liquors. Seagram's VO and Canadian Club have set the pace and the price, but Schenley is now taking a determined crack at their premium position by offering its O.F.C., two years older, in the same price bracket.

III. What's Ahead

The industry reads the 1960 statistics as showing the end of a couple of trends that had been running for years. One is the increasing competition from imported liquor; the other, the movement of the industry toward diversification in unrelated fields.

• **Buy American**—In a recent analysis, Hiram Walker, a large factor in both domestic and imported types, noted a leveling-off among imports. American Distilling speaks of a more substantial market for domestic liquors among U.S. armed forces overseas, now that the balance-of-payments problem has led to imposition of Buy American rules on post exchange procurement officers.

Moreover, if import regulations are stiffened further to discourage the gold drain, imported liquors will undoubtedly be among the first goods to be hit. Liquor is a politically soft target, often catches the brunt of any tax increase.

• **Stick to Your Last**—Last year apparently marked a reversal of the concerted movement of distillers into other fields. Many writers of market letters commented that the profits were better in companies that concentrated on distilling.

Schenley last year sold its pharmaceutical division to Rexall Drug & Chemical Co. National Distillers & Chemical Corp., though it announced a merger this week with Bridgeport Brass Co., shows figures that suggest the company's distilling operations' improved earnings were dragged down by chemical operations. **END**

Rail Giants Vie to Adopt Western

WESTERN PACIFIC:

Small Road in a Strategic Spot

On a railroad map of the U.S., the Western Pacific RR doesn't cut much of a figure. By contrast with the great trunk lines, its 1,200 miles of mainline track look anything but robust. The WP is, in fact, what railroad men call a bridge line, a link between other and bigger railroads.

Right now, however, the Western Pacific is one of the most passionately coveted roads in the country—at a time when many lines are contemplating mergers as a way of bolstering their financial positions. Two western giants of transportation, the Southern Pacific in San Francisco and the Atchison, Topeka & Santa Fe Ry. in Chicago, are engaged in a verbal and financial slugfest for control of the WP. Next week the Interstate Commerce Commission will hold a prehearing conference in an effort to begin sorting out the positions of the contenders.

• **Battle Lines**—For its own part, Western Pacific appears to have accepted as inevitable the surrender of control to somebody. Meanwhile, it has lined up with Santa Fe to oppose Southern Pacific's bid.

The stakes are big and the rhetoric knifing the air in California is redolent of the less-cultured barbs exchanged by the railway barons of a bygone era—Jay Gould, Edward H. Harriman, James J. Hill and Collis P. Huntington.

"We'll fight them on every battlefield," Vice-Pres. Leo E. Sievert of Santa Fe told a forum of public officials and civic leaders gathered in Sacramento recently to hear all the adversaries.

"And maybe on every street corner," snapped Vice-Pres. Benjamin F. Biaggini of Southern Pacific.

I. Key Transport Link

The map shows why the battle is so hot. Western Pacific, based in San Francisco, links the western terminals of Santa Fe and Great Northern Ry. in California—enabling all of them to compete with SP for traffic in the coastal tier of states. And WP strikes out from Oakland to Salt Lake City via the low-grade Feather River route in competition with SP's somewhat shorter but steeper overland route to Ogden. Western Pacific thus holds the key to the only rail competition that exists for Southern Pacific in its home territory.

A glance at WP's 1959 traffic figures shows the extent to which it is dependent on other carriers. Of 7-million tons of revenue freight that moved over WP lines, WP originated and delivered on its own lines only 12%.

rn Pacific

It originated and delivered to connecting carriers another 23%. All the rest, almost two-thirds of the total, came from connecting carriers; and about two-thirds of that (around 43% of all revenue tonnage) was strictly "bridge" traffic—such as a car of Oregon newsprint originated by Great Northern for delivery by Santa Fe in Arizona. The 66,000 cars of freight that Western Pacific and Santa Fe interchanged in 1959 earned revenues of $18.6-million for Santa Fe.

• **Looking Ahead**—It's not only the present traffic that the rival claimants have their eyes on. They're looking to the future. Since the war, California has been one of the fastest growing states. Western Pacific happens to have deep roots in the two sections of northern California which may have the greatest growth potential—the Sacramento and Santa Clara valleys. True, Southern Pacific is the dominant rail carrier in both areas, but Western Pacific represents strong rail competition.

If SP wins the present contest, says Santa Fe, you can look for a return to the "economy-strangling monopolistic conditions" of half a century ago. Translated loosely, that means that Santa Fe would expect to be left with an expensive piece of railroad that has no place to go. Great Northern, based in St. Paul, Minn., shares this fear so earnestly that it has thrown its support behind Santa Fe.

Southern Pacific, on the other hand, makes the economically persuasive point that with control of WP, it could eliminate wasteful duplications of service and combine the best features of both lines to the ultimate benefit of shippers and public. This is precisely the sort of thing the Interstate Commerce Commission has been encouraging in its approach to merger proposals among eastern railroads.

To quiet the fears of its adversaries, SP has said it was willing to let Santa Fe keep a foot in the door. If ICC approves acquisition, said SP, it will propose that WP offer Santa Fe—at "reasonable rental charges"—full joint trackage rights over WP tracks that link Santa Fe and Great Northern.

To the anguished cry of "monopoly," SP cites the fine service of the telephone companies as an example of the results that can flow from government regulation of a public utility monopoly. Says SP's Biaggini: "When they talk about competition, what they really mean is 'help yourself and ruin your enemy.' I say that regulated industry under today's high-cost conditions can't afford the luxury of dog-eat-dog competition."

• **No Distress Sign**—The struggle between Southern Pacific and Santa Fe should not be confused with the rash of mergers that has broken out among other railroads. The ICC has encouraged some of these mergers in the interests of sheer survival of an industry that's vital to the economy. Where a carrier is in distress, as many of them are, a marriage with a healthier road can often save it.

But the Western roads—while feeling the sting of truck and air competition—are not in distress. WP survived a debilitating receivership 40 years ago and a bankruptcy reorganization during the depression to become a fine, well-managed, profitable enterprise. SP has met the competition on its own grounds by building a vast network of truck services and jumping into the oil pipeline business.

II. Call to Arms

Southern Pacific raised the curtain on the present drama last October. After almost a year of secret preparation, Pres. Donald J. Russell applied to the ICC for permission to acquire control of Western Pacific. He said that SP had since April bought "for investment" 182,300 shares of WP—just shy of 10% of the 1,824,222 shares outstanding. If ICC was willing, SP stood ready to acquire the other 90% by exchanging SP stock for WP stock share for share. On the basis of market value of SP stock, this was equivalent to around $36-million.

Frederic B. Whitman, WP's president, was stunned. He had been aware for some time that trading in WP shares on the New York and Pacific Coast exchanges had stepped up. But the price wasn't materially disturbed, and since the SP purchases were left in brokers' accounts, he had no hint of SP's intentions.

• **Emergency Huddle**—WP directors gathered in emergency meeting and took a firm stand against the SP. They noted darkly that the senior road had made its move surreptitiously and without either informing or consulting them. They warned against the monopoly inherent in unilateral control of all rail services in northern California and argued that SP could achieve many of the economies it viewed as desirable by negotiating with WP for joint use of facilities.

The Santa Fe was also caught off guard by the SP move. But Pres. Ernest S. Marsh in Chicago pulled his forces together. In less than two weeks he rounded up 365,000 shares of WP (a shade over 20%), posted all the stock in a voting trust with the American Security & Trust Co. in Washington, and filed with ICC his own application for control. Marsh said the Santa Fe was prepared to offer 1¼ shares for each share of WP—a higher offer on the face of it, but not too significant since the ICC would eventually have final say on price.

• **Sellers' Market**—For owners of WP stock, the rivalry was like money from home. Between April and October the market price had fluctuated between $17 and $20. It closed at $17.25 the day before SP announced its ambitions. In two weeks it picked up seven points, netting tidy profits for sellers and in-and-out traders. The price has hovered in the $23-to-$26 range since.

Southern Pacific's "investment" produced handsome results on paper. SP paid $3.5-million for 182,300 shares, an average of $19.38 a share. At $26, the SP could show a paper profit of better than $1-million.

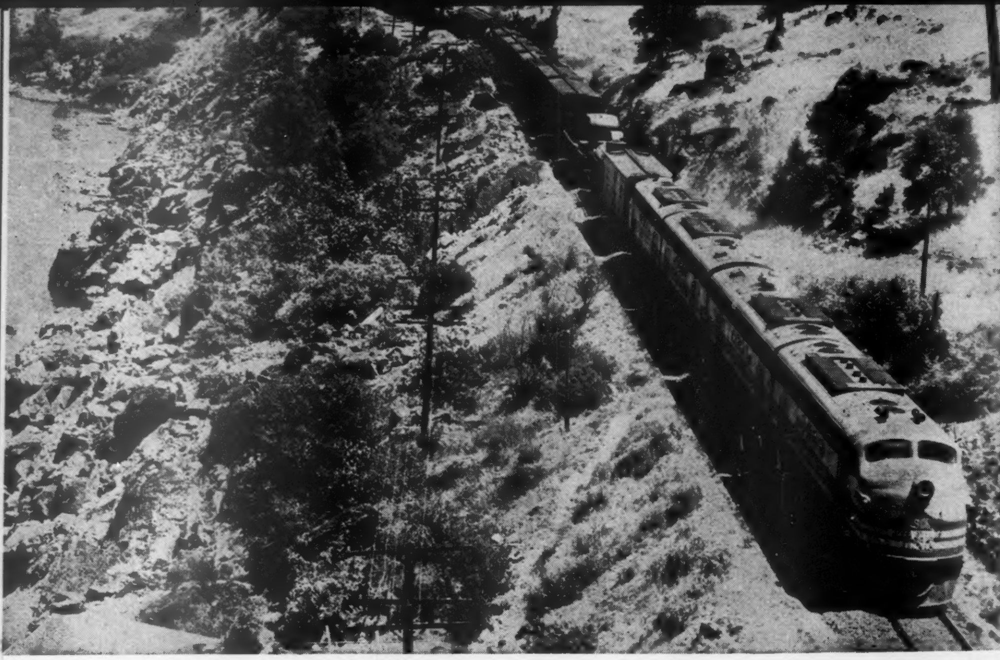
Santa Fe poured $8.3-million into the market between Oct. 10 and Oct. 20, at which time it had accumulated 363,100 shares at an average of $22.88 a share on a rising market. Even when Santa Fe stopped buying at 365,000 shares, trading remained brisk. The next five days saw 188,000 shares change hands, and November-December trading reached better than 160,000 shares, some of it in large blocks. Angered, WP's Fred Whitman alleged in a formal complaint to ICC that either SP was still buying stealthily or had induced others to buy stock in its interest in violation of ICC regulations—an accusation that SP denied.

• **Enter Great Northern**—With the turn of the year, the identity of one aggressive buyer became known when Great Northern petitioned ICC in support of Santa Fe. GN disclosed it had rounded up 156,100 shares of WP. It applauded the Santa Fe proposal, condemned that of the SP. It served notice, however, that if SP or any carrier other than Santa Fe were seriously considered by ICC in its disposition of control over Western Pacific, then Great Northern reserved the right to apply for control in its own interest.

According to one high GN official, that road would have been much happier if the whole ruckus had never been started. It would have preferred the status quo, an independent WP. If such is not to be, however, the GN will do everything it can to keep the WP out of SP's hands.

And last week, the Union Pacific RR, one of the Santa Fe's chief competitors, announced it would intervene before the ICC in favor of the Southern Pacific bid. UP said that "SP control would better serve the public interest, whereas Santa Fe acquisition would obviously weaken Union Pacific's central route from Ogden east."

Until the ICC schedules hearings,



FEATHER RIVER Canyon's easy grades are one of Western Pacific's big assets.

that's where the matter stands officially. The principals are assuming that full-scale public hearings will begin in the spring and that no final decision is possible before the end of next year.

III. Question of Monopoly

A recent development is the entry of the Justice Dept. into the fray. Several weeks ago, the San Francisco office of the Antitrust Div. petitioned the ICC for the right to intervene in the proposed acquisition of Western Pacific. Lyle L. Jones, chief of the local office, said he wants the opportunity to cross-examine witnesses and present relevant evidence in any proceedings that ensue. While the division did not disclose the basis for its interest, it seems likely that after review of the evidence, it will take some position with respect to whether control by one or the other of the contestants would amount to undesirable monopoly.

Western Pacific's own support of Santa Fe's bid is qualified by its insistence that Santa Fe be required by ICC to maintain the competitive status of the line. Whitman has asked for assurance "in the public interest" that "Santa Fe control shall not be employed to divert traffic from the Utah gateway" to Santa Fe's southerly route across the country, and that existing arrangements for north-south traffic through California be maintained.

• **Gould's Answer**—The main line of the Western Pacific between Oakland and Salt Lake City was built in 1909 as Jay Gould's answer to the transcontinental monopoly of the Central Pacific (now Southern Pacific) linking San Francisco and Ogden. The route chosen was originally laid out as a wagon road over the Sierra Nevadas, and if it was longer than SP's, it more than made up for the difference in mileage by the uniformity and gentleness of its curves and grades.

On its own and through interchange with Santa Fe at Stockton and with the Denver & Rio Grande Western RR at Salt Lake City, Western Pacific was thus enabled to break the transcontinental monopoly of Southern Pacific, a development that evoked cheers from shippers east and west.

In 1930, WP extended an arm north to meet an extension of the Great Northern at Bieber, Calif. This made it possible for the combined roads to siphon off some of Southern Pacific's traffic between California and the Pacific Northwest—over the so-called "inside gateway"—as well as the growing commerce of the Pacific Northwest with the East. It was not, however, until 1950 that the WP, GN, and Santa Fe made a concerted drive for the inside gateway traffic over the Bieber route by speeding up and coordinating their freight schedules.

IV. Efficiency vs. Competition

SP's Pres. Russell has set down some of the efficiencies and economies that would come from full control by the SP. In one 180-mile sweep across Nevada, the single tracks of SP and WP are parallel and so conveniently close that since 1924, they've been paired for joint use. All eastbound traffic of both roads moves on WP track, all westbound on SP track. But Southern Pacific's eastbound traffic on the paired track exceeds westbound by 6,000 cars a month, while Western Pacific's westbound exceeds eastbound by 1,200 cars a month. Russell says that with control of WP, he would correct that expensive imbalance by exchange of cars.

Russell runs six trains a day out of the Pacific Northwest to the East. To reach its mainline overland route, the SP crosses the WP mainline at Flanigan, Nev. If the SP could switch to WP track at Flanigan, he could save 53 miles and 2½ hours for each train, with obvious operational economies. Similar economies could be effected in trains between Oakland and Sacramento, in which SP enjoys a 45-mile, two-hour advantage.

• **Nod to Negotiation**—Whitman replies that all the economies outlined by Russell could be achieved by negotiation—that he has, in fact, been negotiating four years with SP for the Flanigan interchange.

Russell turns a cold eye on Santa Fe's intervention. "The Santa Fe's interest lies chiefly in extending its influence into territory already adequately served," he says, "with no compensating benefit to shippers, communities, or the general public. The public interest can best be served by a coordinated system of rail facilities which recognizes that the railroads' chief sources of competition are no longer the railroads themselves but other modes of transportation."

"What other modes of transportation?" snorts Santa Fe's Vice-Pres. Sievert. "Trucks? Well, tell me, who operates more miles of truck routes in California than its own rail lines? The Southern Pacific. Is that the competitive monster we railroads are supposed to be fighting?"

"And who owns 1,400 miles of oil pipelines in California and Texas and is itching to build more? Who is trying to get its hands on our inland waterways by buying a barge service on the Mississippi River? Are these the 'other modes of transportation' that Don Russell says are taking traffic away from the railroads?" END

The transportation pattern

Spotlighting Rails' Problem

High up on a long list of railroad troubles is the fact that the industry is a victim of its own history.

The story goes back to the last half of the Nineteenth Century. Not content with the fantastic advantages the steam locomotive and the steel wheel rolling on the steel rail gave them over every other form of transportation then existing, railroad managements overbuilt, grabbed great land grants for speculation, and sold worthless bonds and watered stock. Moreover, they attempted to create monopoly corporations within an industry that already had a practical monopoly of transportation.

Because of the resulting chaos, railroads came under tight regulation by the Interstate Commerce Commission. Today, they are far from being a monopoly. Other modes of transportation—highway, air, waterway, and pipeline—provide many services more efficiently and cheaply. In many cases these modes do not have the same regulatory vise. Every year these other modes take a greater share of the nation's total freight. Yet the railroads are still operating under much the same tight regulation.

• **Volume**—Now they're trying to break out. Perhaps nowhere are the battle lines more clearly drawn than in the struggle between the Santa Fe and Southern Pacific for the Western Pacific (page 52). The question at issue: Is intermodal competition now so strong that a single, powerful railroad can and should be allowed to serve a vast territory?

Profits of railroads, more than of most companies, are volume-geared. When they have volume, they can make millions; when they don't, they cannot shrink their plant commensurately, and losses pile up.

Two ways are being tried to increase volume—to put more trains on a given track: One is by improving service and reducing rates so as to regain lost traffic, the other, by eliminating competing tracks. The latter promises to receive the most emphasis.

• **Confab**—Last week some 200 railroad officials, shippers, suppliers, university professors, investment men, and labor union officers sat down together at Northwestern University's Transportation Center to discuss the topic, Technological Change and the Future of the Railways.

There were disagreements, of course, but one theme emerging from the conference was that any discussion of technological improvements was academic if railroads can't pay for them—which many of them cannot now do unless volume is increased and assets are pared.

Said Harvard's Professor J. R. Meyer, "There can be no doubt that substantial disinvestments must take place in railroad facilities."

• **Problem**—To many, this was the problem in a nutshell. Can an industry get smaller and qualitatively better, or must it stay big and impoverished? How, with all the vested interests insisting on uneconomic services, can the plant be shrunk?

If a leaner, more muscular railroad plant could specialize in the work it does best, the line haul of big-volume freight with a minimum of short-haul and yard work, the industry could well become more profitable than in decades.

With greater profits it could not only generate cash for technological improvements, it could also attract equity capital again. At present the industry is generally controlled by bondholders more interested in security than in the risks involved in technological change.

• **Specter**—The alternative, as speaker after speaker noted, is

The transportation pattern
(Continued)

eventual nationalization of the industry and freezing it in its present overblown and uneconomic size. For then, the question of eliminating jobs, trains, or even whole railroads will be political rather than economic.

Railroad officers have been long raising the specter of nationalization. At the conference, however, it was the professors, the shippers, and former Interstate Commerce Commissioner Anthony F. Arpaia who brought it up.

Nationalization, they felt, would not be an abrupt move but a slow, spreading process, as the railroads get poorer and service gets worse. And the pressure for it would not come from "radicals" but, rather, from the right—a demand from the leading citizens of communities served for some form of governmental assistance—with its inevitable governmental control.

Once this happens to one railroad, it will be far easier to repeat the process for the next one in trouble rather than put it through a vigorous reorganization.

The consensus of the meeting, however, was that nationalization, though more possible than most people realize, is not inevitable.

To E. G. Plowman, vice president, traffic, U. S. Steel Corp., a vast program of voluntary mergers perhaps resulting in but six or eight systems is a basic remedy. Among the numerous benefits is the reversal of the present trend toward management demoralization as the surviving, healthy railroads realize economies, improve traffic, and create earnings to pay for technological improvements.

Another step, said Arpaia, is to rewrite the present laws. "We should forget the history and past conditions which gave birth to existing legislation and start anew, just as if transportation had never been regulated before."

RESEARCH

Chimp's Ri

The Project Mercury phase of the U.S. man-in-space program entered its critical test period this week—and passed with flying colors. A 37½-lb. chimpanzee, strapped into a specially designed couch in the Mercury capsule, was fired to an altitude of 155 miles from Cape Canaveral, Florida, by a Redstone rocket. Before his capsule splashed into the Atlantic, 225 miles northeast of Grand Bahama Island, the chimp (trained by National Aeronautics & Space Administration scientists to perform simple tasks on signal) had experienced a speed of 5,000 mph. and sustained an acceleration force 12 times the force due to gravity. During his 15-minute ride, early reports said, the chimp's heart and body responses were normal within expected tolerances. And even though he was in a weightless condition, he was able to perform his appointed tasks.

The only flaw in the otherwise extremely successful firing was the performance of the Redstone rocket booster. A higher than normal booster-thrust caused the Mercury capsule to soar farther, faster, and higher than programed. The capsule failed to get the benefit of proper braking action of its retro rockets on the journey back.

• **Possible Delay**—The fact that higher-than-expected deceleration forces were experienced, failed to disturb either the Mercury capsule or its simian passenger. But NASA officials may insist on a perfect performance of both the Redstone launching rocket and capsule before a man takes the ride instead of a chimp. This could mean a postponement of the launching (now scheduled sometime in March) of the first U.S. astronaut in a Mercury capsule. But it will not necessarily delay the first manned orbital flight (due to take place late this year) when an Atlas booster replaces the smaller Redstone booster rocket.

A major point of the chimp test was to determine the effect of weightlessness—the absence of gravity—on physical and mental behavior.

• **Infinity of Tests**—Most of the equipment of the Mercury capsule has already been run through thousands of ground tests, plus several flights. But on the ground, it is impossible to simulate for more than a few seconds the weightless condition that a space traveler must face; the longest period up to now was 65 seconds, achieved in an F-100 airplane. In true space flight, man will have to live in a weightless state for hours, or even days if the flight is long enough. The period will be 4½ hours in

...'s Ride Gives Space Program a Lift

Mercury's first manned orbital flight.

Other satellites have already shown that the equipment can function in the new environment. And the Russian dogs have shown that physical survival is possible for a day or two. It's the psychological effect on man that is still in the realm of guesswork.

This week, a key point was to find out what weightlessness would do to the chimp's ability to perform simple tasks for which it had been trained—would it be able to press levers when commanded by light signals? The answer is yes.

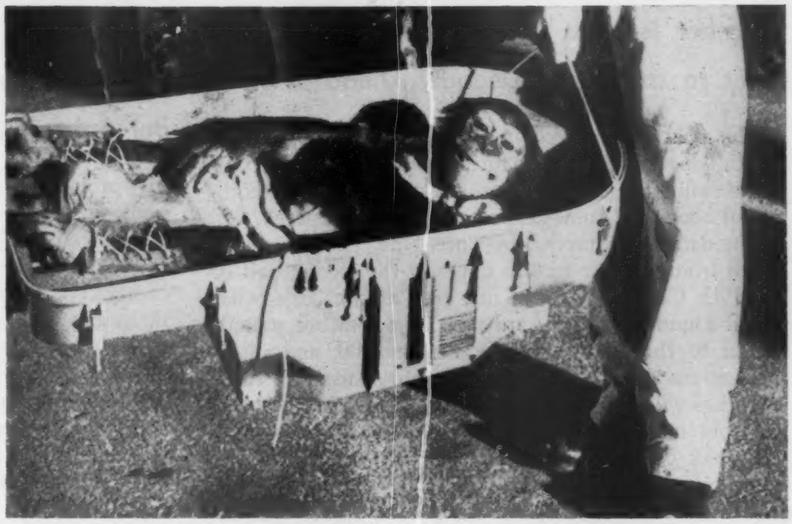
• **Effect on Design**—The reaction of man to weightlessness can have a wide effect on the design of future space craft, such as the three-man Apollo. If weightlessness turns out to be no serious problem, it will be possible to simplify the design of the craft. But if the problem proves to be grave, the designers will have to continue to build an electronic brain into the craft to substitute for human ones, or, alternatively, to evolve a way to simulate gravity in the space vehicles.

• **Difficulties**—The Mercury program is running about nine months behind its original schedule set up more than two years ago; it has cost $300-million already. Some experts figure the final bill for getting a man into orbit may top $500-million.

The fact that it is running behind schedule cannot obscure the fact that the setbacks Mercury has suffered are not major ones. All the delays can be explained, at least in theory, by the inevitable difficulties of so complex an undertaking. The Mercury capsule is fitted with upwards of 10,000 parts, meshed together by more than seven miles of wiring. McDonnell Aircraft Corp., the prime contractor, has called on 2,000-plus suppliers and subcontractors.

• **Role of Atlas**—Right now, the biggest trouble the Mercury program faces has nothing to do with the capsule itself. The culprit is the Atlas booster, scheduled to replace the Redstone to provide extra thrust when man is fired into orbit. Atlas works well enough in the role of intercontinental ballistic missile for which it was designed. But it runs into trouble when it is converted to space work. Most of the difficulty, apparently, centers around the substitution of the one-ton Mercury capsule for the much lighter nuclear warhead that is the Atlas' normal payload.

The National Aeronautics & Space Administration used Atlas twice in early tests, on Sept. 9, 1959, and July 29, 1960. Both times the separation mechanism malfunctioned, separating from the capsule too soon and so subjecting the capsule to much higher acceleration forces and temperatures than are considered safe for manned flight.



CHEERY GRIN marks the U. S. chimp in the couch in which it rode a Mercury capsule 155 miles up. Animal passed weightlessness test with ease.

• **Adapter Right**—The troubles seem to lie at the point where the Mercury capsule is fitted into the Atlas by an adapter ring. This ring serves to distribute the weight of the capsule evenly. It also holds the capsule to the booster by bolts, to each of which a small explosive charge is fitted. At the planned moment of separation, the charges go off and literally blow the capsule free from the booster. The capsule is then supposed to proceed on its orbital path, while the booster drops back into the atmosphere and burns up.

As of now, the engineers theorize that the booster is subjected to excessive pressures near the point where it programs over for flight, and that this is somehow causing the separation charges to malfunction.

Engineers on the project have theorized up two possible cures. The first, which will be tried out in a few weeks, will change the flight pattern of the Atlas to achieve a more gradual elevation, and so reduce the pressures at separation time. If this fails, the engineers will have to fall back on redesigning the Atlas to provide greater structural strength in its upper section near the point of capsule attachment. Such a redesigning would mean serious delay—with the possibility that Congress might consider dropping the program altogether.

• **Next Steps**—The immediate testing program for the Mercury calls for activities on two separate fronts:

• With the Redstone booster, half a dozen more shots have been scheduled, aiming at 100-mile altitudes.

• With the Atlas booster, something like 10 more shots are planned. Four of these will be aimed at getting a capsule into orbit—first with chimpanzees, and later with one man aboard.

Further in the future, for 1962-63, the schedule calls for eight orbital shots by Mercury. The outcome of those tests will determine the steps that will follow.

• **Other Projects**—Mercury just now is getting almost all the publicity, but in fact it is only the first of a series of programs for manned flight in space. The first follow-up project, Apollo, is already started, and aims at putting a three-man team into orbit about 1968. Before that, about 1965-66, NASA and the Air Force hope to launch their joint Dyna-Soar on a manned space flight that will use the gradual bounce-glide method of reentry.

These secondary programs to follow Mercury aroused little enthusiasm during the Eisenhower Administration, and they have received comparatively little money.

Regardless of this, U.S. scientists generally concede that the Russians will probably get a man into space before we do. Their big edge is in more powerful rocket boosters ready and able to do the task. But the Russians are having their troubles, too. Indeed, there is already rumor that the Russians fired a man into space, only to fail on reentry. END

In Research

• • •

Weather Records for a Century Point to a Rugged Decade Ahead

This cold and snowy winter is just a sample of what North America can expect for the next 10 years, according to chilly statistics presented to the American Meteorological Society in snow-heaped New York last week.

The data was compiled by Tufts University's Dr. I. I. Schell from weather records covering the second half of the 19th Century and the first half of the 20th—**what Schell found is that we are now in a weather pattern similar to the rugged decades before 1900, and much more severe than the relatively clement years since then.**

Things will begin to warm up a bit after 1970, Schell says, but no real return of the mild winters typical of the 1940s can be expected until after the turn of the next century.

Schell reports that things have been somewhat different in the southern part of the southern hemisphere. Records are scarce for this area, but he notes that the Falkland Islands, off the tip of South America, actually got even colder during the 1901-1950 period, while the rest of the western hemisphere was warming up. He guesses that there may be a simple explanation of the out-of-step Falklands: all that ice accumulating in Antarctica.

• • •

U. S. Intelligence Needs for Translations Expected to Quadruple in 10 Years

Requirements of the U. S. intelligence services for language translation will quadruple in the next 10 years, and the only way that volume can be met is by **the development of efficient automatic translating devices.** That's the opinion of the Planning Research Corp., which is doing a study of translation potentials for IBM.

By 1970, the U. S. government will need translations of an annual volume of 4-billion words, according to PRC—and that figure includes only the 12 languages now of greatest interest. But in the future, there will be a marked increase in the number of languages needed by the intelligence community. Russian and Chinese, of course, will continue to hold down first and second place in the translation requirements. But such other languages as Indonesian, Croatian, Arabic, and Vietnamese will become increasingly important.

The U. S. is already receiving between 300 and 400 books a year from China's ever-growing program of scientific and technical education. These books, plus other matter in Chinese, mean a total monthly translation load of about 500-million words. However, this figure shrinks under the most modern theory—that only critical intelligence material needs to be translated—to a more manageable 250-million words a month.

Because of the growing number of languages involved, it would require a pool of qualified translators 50 times larger than the one now available to handle the expected over-all load. Since this is hopelessly impracticable in terms of both cost and manpower, IBM and other companies are busy trying to develop machines that can more adequately handle the job.

• • •

Scientists Spin Hamsters on South Pole, But Animals Carry On as Usual

A project, sponsored by the National Science Foundation, aimed at discovering whether there is any connection between the rotation of the earth and the biological "clocks" of plants and animals has turned up a solid series of negative results. The results don't prove that there is no connection between the two phenomena. But they strongly indicate that **some other control center (perhaps inside the body itself) is responsible for the fact that plants and animals conduct their activities with almost clock-like regularity.**

Running the tests for NSF was Dr. Karl C. Hamner of the University of California at Los Angeles. Site of his experiments was the U. S. Geological Station at the South Pole. His experimental animals, 19 hamsters, were put into cages and spun slowly—one complete turn every 24 hours—in a direction precisely opposite to the direction of the earth's rotation. This, in effect, put the hamsters into a state of motionless living. Their habits, if they were controlled by rotational motion, thus should be upset.

In the case of each of the 19 animals, according to Hamner, the tests proved completely negative. Nothing changed in the hamsters' daily pattern of living; they ate, slept, and moved about exactly as usual.

The tests indicate, other researchers say, that man's normal living pattern may be relatively unaffected by this phase of space travel. At present this is one of the major problems space scientists are facing (page 60).

• • •

Heart Assn. Denies That Research Funds Outrun the Researchers to Use Them

Published statements that the funds available for heart research have outrun the qualified researchers available to use them properly were denied last week by the American Heart Assn., in its annual report. The association quotes its own Research Committee as saying that "double the sum now available could be used effectively to speed the conquest of heart disease."

In fiscal 1959-60, the association spent \$9,053,592—or 37%—on research out of an over-all budget of \$24,377,-435. This is said to be the largest percentage devoted to research by any major voluntary health agency, yet it was not enough to supply all the grants approved by the Heart Assn.'s Research Committee as "scientifically worthwhile."

In general, the Heart Assn. reports that a tremendous amount of work remains to be done on heart disease, despite the major recent strides in some aspects of its work. Thus in 1960, cardiovascular diseases accounted for 900,000 deaths in the U. S.—more than half of the national total.

Business Tithe for College Aid?

Group of Cleveland companies sign pledge to give at least 1% of their pre-tax profits to higher education. Educators hope the idea catches on.

Twenty-one Cleveland companies this week announced they have pledged themselves to a new system of tapping the corporate till for financial aid to colleges and universities. The pledge they have signed commits them to give at least 1% of their pre-tax profits to higher education.

In dollar terms this works out to well over $2-million a year—based on last year's profits among the 21 companies. On the average, the nation's corporations at present give about 1/10 of 1% of their pre-tax profits to higher education.

• **Spreading the News**—Word of what has happened in Cleveland is now being spread around the country by eager college presidents, by the Council for Financial Aid to Education, and by the 21 companies themselves. But though all three groups are anxious to see steady increases in corporate aid to higher education, they are calling attention to the so-called "Cleveland Compact" with all the delicacy and diplomacy they can muster. Aggressive promotion of the idea, they seem to feel, might upset the whole pattern of corporate aid, might rile some companies already giving millions but whose gifts still amount to a lot less than 1% of pretax profits.

The Cleveland Compact is a highly informal agreement. It has no central body to scan the accounts of the 21 companies, to collect the funds from them, to distribute them to colleges and universities. Nor does the 1% rate go into effect right away. The pledge, originally worked out last spring, commits the companies to raise their gifts to that rate over a three-year period—and "thereafter gradually increase it as the need develops." And the 21 companies still decide individually where the funds go.

• **Concerted Effort**—The Cleveland Compact was first conceived a little more than a year ago. It grew out of a discussion among three trustees of Cleveland's Case Institute of Technology—George S. Dively, chairman of Harris-Intertype Corp., Charles M. White, recently retired chairman of Republic Steel Corp., and Kent H. Smith, former chairman of Lubrizol Corp. and acting president of Case Institute. All three, as corporate officers, were already directing some of their companies' earnings to colleges and universities, but each felt that the gifts should be increased and that they and the directors of other companies should act in concert to increase them.

The three originators of the idea went to work "selling" it to other Cleveland companies. The 21 companies now in the compact include such giants as Republic Steel (1960 pretax profits: $103.2-million) and Ohio's Standard Oil Co. (1959 earnings: $34.3-million), as well as corporations whose profits run in the thousands.

• **Infectious Idea?**—The Council for Financial Aid to Education, which helped the Clevelanders set up their compact, is now quietly helping to publicize it. CFAE's president, Dr. Frank Sparks, says: "We're reluctant to identify ourselves with any particular plan for corporate aid to education. Instead, we're telling meetings of businessmen about the Cleveland example, and are certainly hoping that some adaptation of this will catch on."

To this end, CFAE has helped local colleges and universities outline the Cleveland Compact to groups of businessmen in Philadelphia, Worcester (Mass.), and about a dozen cities and towns in Indiana.

One of the beauties of the Cleveland Compact, says Sparks, is that it enables corporations to raise their gifts to colleges in concert, with less likelihood of grumbling from shareholders, worried about lower dividends. "Management," he says, "cannot expose itself singly to criticism from stockholders."

• **Big Potential**—If the idea were to catch on throughout the country, corporate aid to higher education would jump from its present $150-million a year to about $500-million. CFAE estimates that around 35,000 corporations in the country now have some regular plan for aiding higher education. But this is only a small fraction of the 700,000 or so corporations in the U. S. and though that high figure certainly includes thousands of companies that might never give a cent to a college (such as the corner grocery and the local laundromat), it seems likely that a regular aid plan would attract many thousands of new contributors.

CFAE says some 10% of the 35,000 companies with established aid plans are already giving at the 1% rate, or better. But it would probably take a monumental effort to get all 35,000 to agree to that rate.

One of the main reasons why Sparks and CFAE are not directly promoting the Cleveland Compact is that most corporations now giving aid of $1-million a year or more to colleges and universities are nowhere near the 1% rate, and CFAE does not want to appear to put more pressure on them. Meanwhile, these giants are not sure that setting a 1% rate is a sound idea.

• **Companies Demur**—General Electric Co., for example, aids higher education at just about the national average rate—one-third of 1% of pre-tax profits. This runs to about $2-million. Joseph M. Bertotti, manager of GE's educational relations, explains GE's philosophy on this: "We have always felt that our aid to education should be based on a thorough study of the objectives we want to reach . . . and once we have decided on this, the amount might be less than 1% or more than 1%.

"Judicious giving does much more than the dollar amounts might indicate. We have always sought to provide 'seed money' for educational projects that will have a far-reaching effect—for example, for fundamental studies of curricula and for summer programs for teachers."

Some other large corporations agree. George Buckingham, executive secretary of Esso Education Foundation, says: "We are not about to endorse this [Cleveland] idea. Corporations would face a dilemma in setting a fixed rate of aid to education. Other charities need their aid, and if Red Cross and the United Fund were to want more, what would we do? Would we have to cut back on the 1% rate for education?"

• **Other Reservations**—Officers of several other large corporations—all of which now give more than $1-million annually to education—declined to be named, but each of them said, in effect: "The idea is unrealistic." One suggested that a fixed rate of 1% of pre-tax profits could all too easily become a maximum, depriving colleges of what they might otherwise get. Another said that after a good profit year his company might want to reinvest more heavily than usual in its own plant—"and then we'd be faced by those college fund directors, who watch corporate income statements as closely as most security analysts."

In the past four years one of these companies has given aid to higher education at rates varying from 1.6% to 0.3% of its pre-tax profits, and most of the others' aid runs to a little less than 1%.

Despite such reservations, the scheme seems likely to spread. CFAE, working with colleges and universities, is setting up a busy schedule of meetings with businessmen in half a dozen other centers in addition to Indiana and Massachusetts. END

NOW SHIP IT FASTER

Got a shipment going hundreds of miles? Get it out by 9 A.M.... it arrives the same day! Got a shipment going about 50 miles? Ship it out around 9 A.M.... it's there by noon!

Whatever the destination of your shipment, chances are, a Greyhound is going there anyway...*right to the center of town.* Greyhound travels *over a million miles a day!* No other public transportation goes to so many places–so often.

You can ship anytime. Your packages go on regular Greyhound passenger buses. Greyhound Package Express operates twenty-four hours a day...seven days a week...*including weekends and holidays.* What's more, you can send C.O.D., Collect, Prepaid ...or open a charge account.

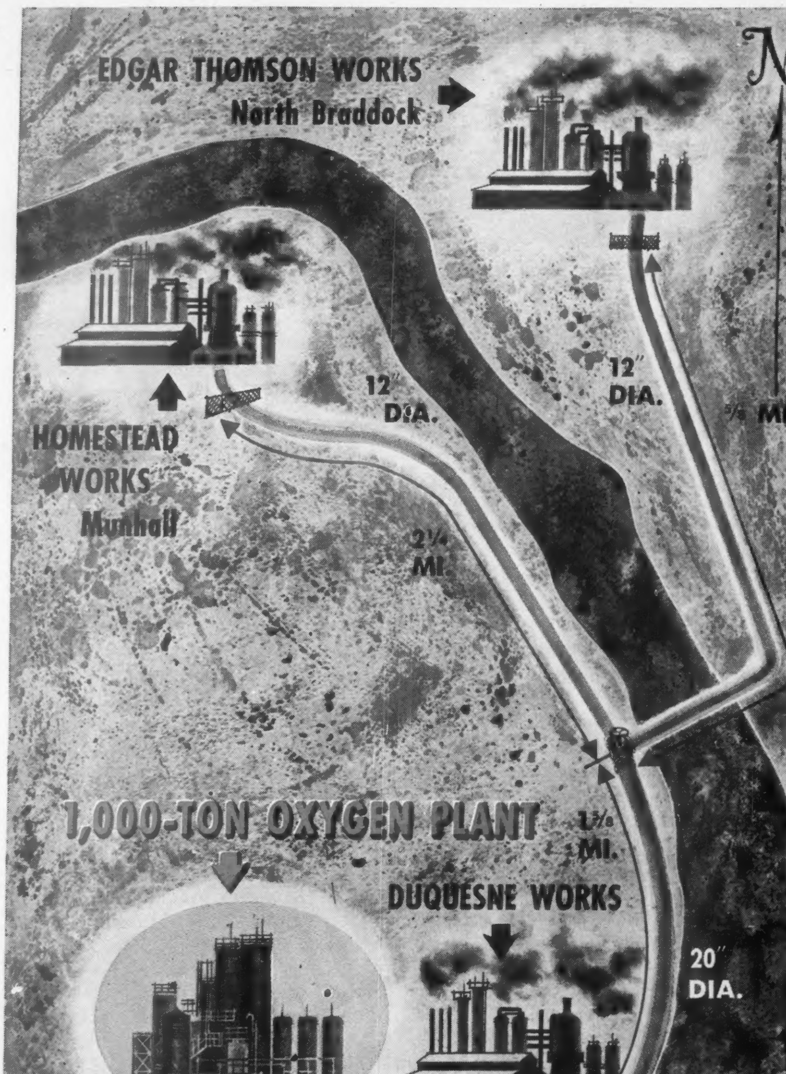
CALL YOUR LOCAL GREYHOUND BUS TERMINAL TODAY...OR MAIL THIS CONVENIENT COUPON TO:

GREYHOUND PACKAGE EXPRESS
Dept. B-2, 140 S. Dearborn St., Chicago 3, Illinois

Gentlemen: Please send us complete information on Greyhound Package Express service... including rates and routes. We understand that our company assumes no cost or obligation.

NAME____________ TITLE________
COMPANY____________
ADDRESS____________
CITY________ ZONE____ STATE______

IT'S THERE IN HOURS...AND COSTS YOU LESS!



COMPANIES

U. S. Stee

Line linking 1,000-ton Linde plant to four steel mills (left) sets new mark, points to bigger growth in steel's oxygen thirst.

If you're looking for the latest symbol of industrial growth, the diagram at the left offers much to fascinate you. What it shows is quite possibly the most overpowering concentration of industrial oxygen capacity in the world. And behind that concentration is the fact that the stuff has become so useful to steelmakers that it's now moving into their plants via pipeline.

This 4.5-mile pipeline in Pittsburgh's steel valley is by no means the first time oxygen has been delivered by pipeline—but it sets a new mark; and in many ways it's the most dramatic, not only in terms of size and capacity, but of what it portends for the future oxygen appetite of steel mills, even perhaps of blast furnaces.

The pipeline moves the product of a 1,000-ton-per-day oxygen generating plant, the industry's largest, to four steel-producing points all owned by the same customer, U. S. Steel Corp. It's a single-purpose generating plant and a single-purpose pipeline—both owned and operated by the Linde Co., a division of Union Carbide Corp.

That may not sound so startling in itself. But compare Linde Co.'s 1,000-ton oxygen plant with the 1,125-ton total oxygen capacity of the entire British steel industry in 1960—a capacity that serves at least three times the steelmaking capacity of the U. S. Steel facilities served by Linde's plant.

• **Better Than Air**—Linde's oxygen plant and pipeline are solely dedicated to serve U. S. Steel's Upper Monongahela Valley steelmaking complex.

Steelmakers have been learning fast that anything air can do, oxygen can do better. That, of course, has been a truism for years among industrialists involved with chemical processes—which is exactly what steelmaking is.

Over the past four years, the use of oxygen in steelmaking has grown far beyond expectations.

Today, too, oxygen enrichment in blast furnaces for routine iron smelting—long blocked by economic hurdles—is again one of the industry's liveliest technical topics. A number of producers are experimenting seriously.

• **Signpost**—That's why the Mon Valley development represents an important milestone for oxygen—and a signpost pointing ahead. The milestone registers not only the huge capacity

Breathes Oxygen by Linde Pipeline

of the 1,000-ton oxygen plant and the pipeline. Both can also draw, if necessary, on the back-up capacity of area and region plants with generating and storage capabilities so great that the totals would have been laughed at even four years ago.

Within a 15-hour delivery-time limit from Mon Valley (in this case by truck) —the limit that steelmakers regard as critical for back-up—Linde has six big liquid oxygen generating plants with a total of 2,730 tons daily capacity. The nearest are a 110-ton plant at Duquesne and a 700-ton plant three hours away by truck; the farthest is a 900-ton plant at East Chicago, Ind. Within the same delivery-time range, Linde has liquid storage capacity at 15 locations, totaling more than 19,000 tons.

You can also read that:

- The 1,000-ton generating plant at Duquesne replaces three generators that had in 1957 a total 160-ton daily capacity at three locations. (Linde also has a 500-ton low-purity oxygen plant at Duquesne.)
- Duquesne's 1,000-ton high-purity oxygen plant and the pipeline have not yet come close to full operation in the seven months they've been in place and the four months they have been 100% operable. Yet oxygen's potentialities are so great that it's possible to extrapolate the need for a second pipeline and six such plants to serve the oxygen demands of this same steelmaking complex five years hence.

I. The Payoff of Knowhow

Linde, the biggest factor in a burgeoning trade, used all the knowhow acquired over years of research, development, and practice when it approached U.S. Steel in 1957.

The Corporation then had a little less than 9-million tons of open-hearth steel capacity at Homestead, Duquesne, Braddock, and McKeesport—served by the 160 daily tons of oxygen capacity in the three Linde-owned plants. These hadn't been operating very long before USS was badgering Linde for something like 400 tons a day at these locations.

That started Linde off. By mid-1957 it made a proposition in writing, suggesting the huge Mon Valley plant and pipeline—two and a half times the capacity USS wanted, with a startling new method of transportation.

- **Bait**—Linde attached some enticing bait to this unexpected proposition—in the form of a progressive rate schedule under which Linde shouldered most of the risk. It's a four-part rate based on consumption. The highest price is estimated at about $15 per ton—for use up to 500 tons per day. As consumption approaches the plant's 1,000-ton capacity, the price drops progressively. Linde figured U. S. Steel's requirements would not reach the lowest rate before 1964.

Linde thus committed itself to carry the capital costs of as much as 500 unused tons of plant capacity, and even more unused pipeline capacity, for a long period before revenue would come in from that part of the plant.

- **Advantage**—Linde did have one very real advantage, though. It had been researching the economics and engineering of oxygen extraction for years. Now, for a plant that size, it had its big chance to capitalize on the latest and best knowhow and equipment.

The designers went, for example, to an axial flow compressor—markedly more efficient than centrifugal compressors, but only for very big loads, and yielding significant savings in power cost. As far as Linde knows, it's the largest such compressor ever built for an oxygen plant. Actually, Linde had some severe mechanical problems with it, delaying service some months.

- **Gaseous Gain**—The pipeline offered another advantage. Only infrequently do oxygen generators serve loads large enough and near enough to permit distribution of gaseous oxygen. So, commonly, they generate liquid oxygen, which loses some of the economies of the large generator because it requires high-pressure construction and very costly pumping equipment.

Because USS can accommodate the huge output at several commonly owned load centers, reachable by pipeline, Linde can generate gaseous oxygen in much less expensive low-pressure cold boxes, with conventional pumping equipment.

- **Oil-Free**—Some Linde knowhow also enables it to load the pipeline economically. The oxygen is pressurized to 250 psi. for transmission—a tricky business, for any pump must be lubricated but oil and oxygen make a savagely explosive mixture. The alternative of water-lubricated equipment is costly. But Linde, which already had been developing plastic air seal rings, could avoid that expense through the use of such oil-free seals.

This enabled it to design the pipeline for loads far greater than the Mon Valley generator can supply. Design capacity is 450 psi., at which it could handle 5,000 tons per day.

- **New Ground**—In the Chicago area, Linde serves a large and fast-growing Inland Steel Co. metallurgical oxygen load via a 3-mile, 8-in. pipeline from a central generating plant. In Welland, Ont., it serves two such loads thus. A regional competitor in Houston serves several customers by a common pipeline. Throughout the trade, particularly since steel industry loads have demanded on-site plants, "over-the-fence" oxygen pipelines have become routine. Reportedly, there's even a 15-mile line in France.

Where the Mon Valley project really breaks new ground is in the fact that a single-purpose pipeline can open so many doors—technical, commercial, and otherwise. It takes an unusual combination of loads and geography, and a pretty unusual customer-supplier relationship, to make it possible even to consider such a pipeline.

II. The Sky's the Limit

Oxygen's future in steel is so tremendous that it's easy to lose the immensity of Mon Valley's present just in speculating about its future. That future is to be found in the oldest thermal tool that steelmakers use—the centuries-old, iron-smelting blast furnace.

Steelmen have been intrigued for years with the theoretical prospects of an oxygen-enriched hot blast. But the economics have been so discouraging that among the major U. S. producers only Weirton Steel Div. of National Steel Corp. has invested in oxygen for routine iron smelting. For the very occasional blast furnace assigned to production of ferromanganese—a raw material essential to steelmaking—oxygen enrichment proved attractive in the mid-1950s. That's why Linde built its 500-ton plant at Duquesne.

- **Serious**—There are quite a few reasons why quite a few producers today are experimenting in dead earnest with oxygen enrichment on iron furnaces.

The prospects are attractive enough that these investigations are top secret. But considerable time is needed.

Still, from a computer study Linde made public last spring, you can figure where the U. S. Steel iron furnaces supplying the four Mon Valley steel plants might require 6,000 tons of oxygen per day over and above the capacity of the 1,000-ton and 500-ton plants.

- **Back-Up**—One of the reasons even so large an oxygen producer as Linde can even dream of oxygen iron smelting can be seen in that Linde-owned generating capacity within the Pittsburgh area—16% more than the British have on order for their entire industry. **END**

Lunch hour at 42nd Street and Madison Avenue.

Member Federal Deposit Insurance Corporation.

Manufacturers Trust Company has more offices...to help you do business in the city...than any other New York bank.

Also 2207 correspondent banks throughout the United States ◆ Representative offices in London, Paris, Frankfurt, Rome and Tokyo, and correspondent banks in 153 countries.

INTERNATIONAL OUTLOOK

BUSINESS WEEK
FEB. 4, 1961

A BUSINESS WEEK SERVICE

Pres. Kennedy has put a new sense of urgency into the handling of U.S. foreign policy. In his State of the Union address, Kennedy warned the nation of the perils we face abroad. And he did it in much starker language than Pres. Eisenhower liked to use.

When you come down to concrete policies, though, Kennedy hasn't come up with anything really new. Nor will he very soon. In the main problem areas, only shifts of emphasis, or of tactics, are likely—unless we run into a major international crisis with the proportions of Korea.

Kennedy was skillful, of course, in outlining the big problems and in suggesting his approach to them.

Take U.S.-Soviet relations. **Without being belligerent, Kennedy let Nikita Khrushchev understand that smiles wouldn't lull the U.S. into surrendering any free world strength.** To drive his point home, the President announced a strengthening of our capacity to airlift troops plus a speedup in the building of Polaris submarines and in missile development. As if to reinforce his words, the Minuteman went through a test firing on Wednesday with flying colors (page 20).

On the other hand, Kennedy stressed his readiness to negotiate an arms control arrangement that would reduce the danger of nuclear war. Here, as in his behind-the-scenes moves to restore routine diplomatic relations with Moscow, Kennedy's aim is simply to cut down the chances of war by miscalculation. He doesn't expect in these ways to halt the Communist drive for world domination.

To meet the Communist offensive in the underdeveloped areas of the world—from Asia to Latin America—Kennedy called for a "towering and unprecedented" aid program. **For the moment, he apparently isn't thinking of large additional economic aid appropriations. Most of the new aid money, he suggested, must come from Western Europe, especially West Germany.** What he wants from Congress is a more flexible, longer range aid program that puts more stress on promoting education, social justice, and regional development.

Kennedy also indicated that he plans to use U.S. farm surpluses more lavishly to combat hunger. He came back again to his idea of a "national peace corps" to help the underdeveloped countries.

Latin America got special attention in Kennedy's address.

On the one hand, the President warned Moscow that it could not expect to maintain its beachhead in Cuba for long. "Communist domination in this hemisphere can never be negotiated," he declared.

As for economic assistance, the highest priority is to go to Latin America. Specifically, the President asked Congress to appropriate \$500-million for the social development program that Eisenhower had proposed.

In the case of U.S.-European relations, Kennedy did little more than refer to the strains within NATO and call on the U.S. Senate to approve the new 20-nation Organization for Economic Cooperation & Development.

However, **his firm line on the U.S. balance-of-payments problem was intended mainly for Western Europe—the main source of pressure on the dollar.** He pledged to use all our reserves—a total of \$22-billion if you include our drawing rights in the International Monetary Fund—to defend the dollar at the present gold price.

INTERNATIONAL OUTLOOK (Continued)

BUSINESS WEEK
FEB. 4, 1961

Kennedy's stand on the dollar problem had a favorable impact this week in European financial centers. This was due as much to his realistic appraisal of the problem as to his pledge to defend the dollar.

For over a year now Europeans have questioned our ability to check the gold outflow unless U. S. industry got its costs in line and the U. S. government cut its overseas spending. Now, across the Atlantic, the questioning goes like this: Will the new Administration be able to combine domestic expansion with a reduction in the U. S. payments deficit?

Temporary help in narrowing the deficit is due from West Germany, of course (BW—Jan.28'61,p90). Then, there is a concerted effort among the big Western nations to get short-term interest rates closer together. **If London rates fall soon, as expected, short-term money could well be attracted back to the U. S.—reversing the trend of the past six months.**

—•—

Brazil, living in a heady glow from a spectacular economic development spree, has learned about cost from President Janio Quadros.

In a chilling "state of the union" message shortly after his inauguration this week, Quadros told the nation that Brazil is down to its last nickel. Then Quadros etched out the general principles of his administration:

- **There will be a drastic belt-tightening** to rescue the country from its financial situation, which Quadros termed "terrible."
- **Confronted with inflation, Quadros warned both labor and business to restrict their demands.**
- **He promised a "no-quarter fight" to restore morality** to public affairs.

In foreign affairs, the new president promised that Brazil would remain true to its traditions and geography and would honor its international agreements. Nonetheless, **Quadros is expected to follow an independent international course.** He proclaimed Brazil's ports open to all nations that wish to trade with it. He also stretched out Brazil's hand to the newer nations, saying that Brazil would "understand their occasional excesses."

The new president's message was a blazing indictment of predecessor Juscelino Kubitschek and his policies. "What has brought resounding publicity," Quadros said, "must now be paid for, bitterly, patiently, dollar by dollar, cruzeiro by cruzeiro."

—•—

The British and West German governments have worked out a possible line of accommodation between the six-nation European Economic Community and the seven-nation European Free Trade Assn.

After three months of intensive joint study, London and Bonn have agreed that the two trading blocs should form an association—one that would combine some features of a customs union and some of a free trade area. The British are willing to throw their preferences in Commonwealth markets open to negotiation so that the Six would have tariff equality with Britain in these markets. In return, the Six would have to give Commonwealth nations some import concessions, especially in agricultural products.

There's a hitch, though. It's France. **Even the Germans can't persuade Paris to discuss the Six-Seven problem.**

THE NEW

NRI CURRENCY CHANGER

NOTHING LIKE IT... The NRI Currency Changer is unique. Not only does it make change for coins and one dollar bills, but for five dollar bills as well! Rejecting slugs and counterfeits with electronic accuracy, it gives a complete range of change for genuine currency from a dime to five dollars.

By sparing valuable personnel for more profitable tasks, the Currency Changer saves you time and money. By indirectly stimulating impulse buying, it even **makes** money. And all this with speed, efficiency and complete dependability.

GET THE FULL DETAILS... Learn how the Currency Changer can solve **your** change-making problems. For an illustrated brochure write: National Rejectors, Inc., 5100 San Francisco Ave., St. Louis 15, Mo.

The only machine that makes change for $1.00 and $5.00 bills

Factories: St. Louis, Mo.
Hot Springs, Ark.
Buxtehude, Germany

Branch offices: Atlanta, Boston, Chicago, Cleveland, Dallas, Detroit, Hot Springs, Los Angeles, Miami, New York, Pittsburgh, Richmond, San Francisco, Seattle, Montreal and Toronto, Canada and Buxtehude, Germany

NRI
NATIONAL REJECTORS INC.

A Subsidiary of Universal Match Corporation

In Business Abroad

• • •

British Publishing Giants Talk Merger Stir Cries of Monopoly in Parliament

News of Britain's biggest-yet press merger startled Fleet Street last week and stirred renewed Parliamentary clamor for a government investigation of monopolistic trends in the British publishing business.

Now that the dust has settled, **it is pretty certain that Daily Mirror Newspapers, Ltd., the tabloid group, headed by newspaper czar Cecil Harmsworth King, will succeed in its share-exchange bid for Odhams Press, Ltd., one of the world's largest magazine publishers.**

The Mirror group and Odhams between them own most of the popular glossy magazines and a large portion of Britain's trade journals. In addition, the Mirror has its daily and Sunday tabloids; and Odhams owns the Daily Herald, former Labor Party organ, and The People, a highly successful Sunday paper blending politics and sex.

Earlier, Canadian publisher Roy H. Thomson had wanted to take over Odham but he is apparently unwilling to offer a counter bid to the Mirror group's bid of $84-million.

For a while it looked as though the government was going to intervene and quash the merger on the grounds that it would result in a publishing monopoly. At midweek, however, Prime Minister Harold Macmillan told Parliament that the government at this time "has no effective power to intervene to prevent negotiations being brought to a conclusion." He quickly added that he had not completely closed his mind on the matter.

If the merger goes through, the new company will be one of the largest newspaper, periodical, and printing groups in the world. It will have combined assets of $275-million.

• • •

Toledo Gets Foreign Trade Council; Trend Even Extends to Landlocked Cities

Regional foreign trade councils are springing up all over the U.S.—not only in such traditional export centers as New York, San Francisco, and Chicago, but in areas as landlocked as Oklahoma City and Reading, Pa.

The latest—Northwest Ohio Export Development Council—was formed this week in Toledo. It is made up of bankers and export managers of large corporations in the area.

This group, whose experts cope daily with export problems, will help small manufacturers who want to build up sales overseas. Toledo businessmen hope this will spur local manufacturing by opening new markets, and will increase exports through the Port of Toledo, now linked with the Atlantic via the St. Lawrence Seaway.

Commerce Secy. Luther H. Hodges, who ran a highly successful export council when he was governor of North Carolina, is known to favor development of these local councils. He thinks that the new export volume generated this way will beef up the government's efforts to improve the U.S. balance of payments.

• • •

New African States Move to Retain Economic Ties to European Community

Sixteen new African states—originally associated with the European Economic Community (EEC) as dependent territories—want to keep their economic ties with Europe now that they are independent. This was evident in Rome last week at a meeting between EEC delegates and representatives of the African states.

The Rome meeting laid the groundwork for a Eurafrican summit conference next June in Strasbourg, France, seat of the EEC High Authority. The conference will seek to establish continuing cooperation between the six EEC nations and their former African territories.

A five-year association of these territories with EEC was set up under a convention signed in 1957. Though the territories have become independent in the meantime, EEC decided to maintain the convention until it expires in 1962. **Since a new convention linking Africa and EEC will take about a year to ratify, it must be drawn up by the end of this year. This will be done at Strasbourg.**

EEC members are delighted that the new African states want to remain economically tied to Europe. Only in this way, they feel, can EEC maintain its preferential position among these former colonies, in terms both of a market for its goods and a constant source of raw materials.

• • •

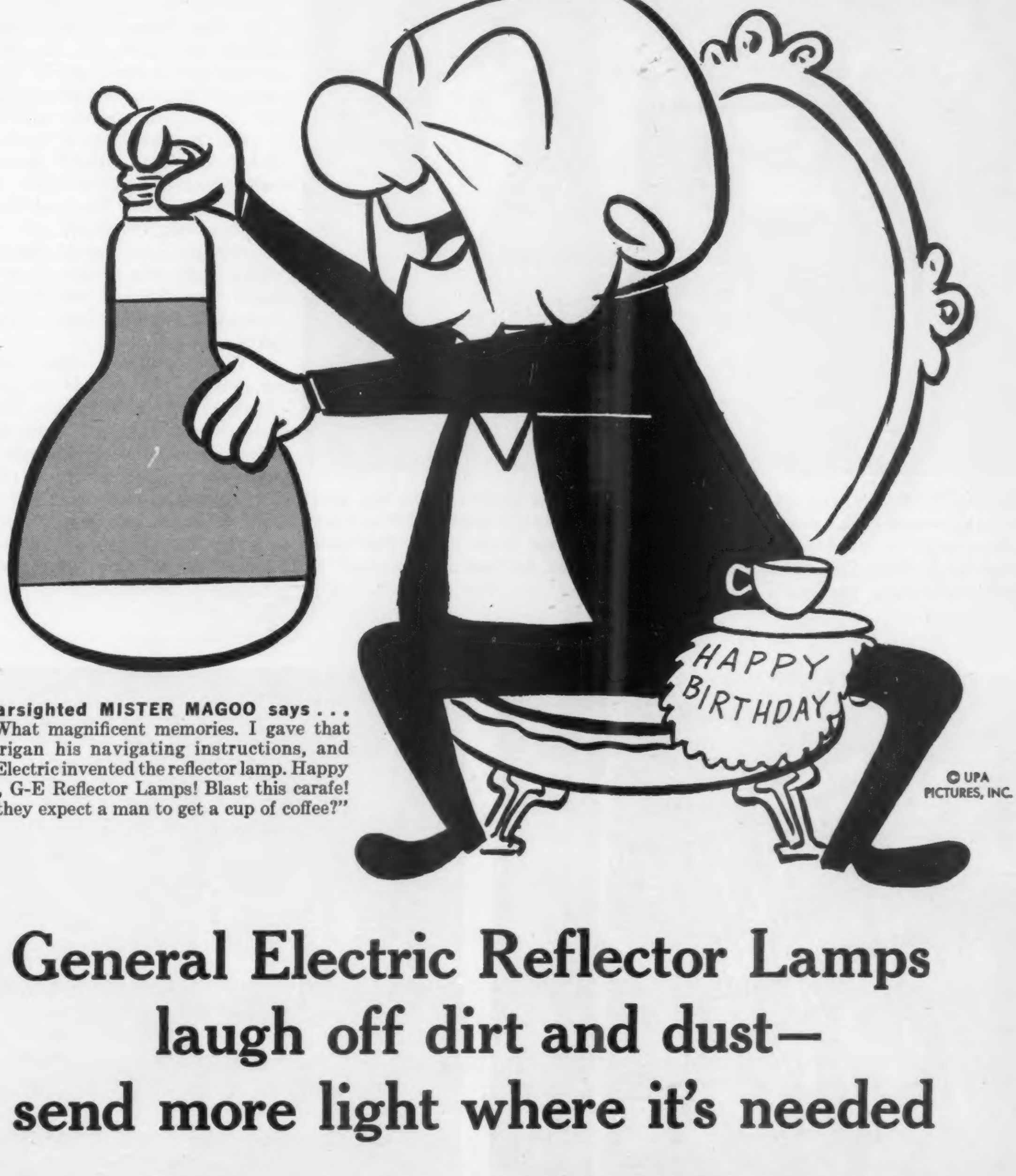
British Installment Buyers Get A Year Longer in Which to Pay

British industry is lukewarm to Whitehall's latest move to stimulate the economy—a government decree lengthening the payment period in installment buying from two or three years. **Businessmen say stronger steps to relax consumer credit are needed.**

Whitehall answers that its relaxation of regulations was designed to help only the seriously depressed automobile and consumer durable industries. These two industries, government sources explained, have so much idle capacity that they can be helped without straining the economy.

Britain's auto industry expects a slight improvement in domestic sales. Here the length of the period for payment is an important factor in the sale. Consumer durable manufacturers doubt that the government move will do them any good at all, since the required 20% downpayment—not the period for payment—is the inhibiting factor with their customers.

Still, London businessmen are hopeful that the government action is a first cautious step toward greater relaxation of British consumer credit. They base their optimism on signs that exports are rising and imports are slowing in 1961.



The nearsighted MISTER MAGOO says . . . "1938? What magnificent memories. I gave that boy Corrigan his navigating instructions, and General Electric invented the reflector lamp. Happy birthday, G-E Reflector Lamps! Blast this carafe! How do they expect a man to get a cup of coffee?"

General Electric Reflector Lamps laugh off dirt and dust— send more light where it's needed

Now you can cut maintenance costs—*and get more light overnight*—without spending a penny for new lighting equipment or increasing your power costs.

How? Switch to General Electric Reflector Lamps in your filament or mercury lamp systems.

A pure silver reflector (or phosphor in mercury lamps) is sealed inside a specially shaped bulb where it can't get dirty. It directs more light *down* on the job—day in, day out. You get all the light you pay for. Everybody gets more light, can do better work faster.

Maintenance men seldom, if ever, have to clean fixtures. All they do is change burnouts—and the long, uniform life of G-E Lamps means changing can be done on a regular schedule.

General Electric *Filament* Reflector Lamps (developed in 1938) are available in 500-W, 750-W and 1000-W sizes with pure silver reflectors (above). G-E *Mercury* Reflector Lamps (1952) come in 400-W (silver or phosphor reflectors), and 1000-W (phosphor reflector) sizes. Your General Electric Lamp distributor can help you pick the best one for your business. Call him today. General Electric Co., Large Lamp Dept. C-12, Nela Park, Cleveland 12, Ohio.

Progress Is Our Most Important Product

GENERAL ELECTRIC

OLD FRIENDS GET TOGETHER to talk business and to socialize in the Top of the Mark, the cocktail lounge atop the Mark Hopkins Hotel. Left is Ford Vice-Pres. Lee A. Iacocca; then Mr. and Mrs. Austin Hemphill, and George Jones, retired Ford dealer and former NADA official. Hemphill, a Texas Ford dealer, has known Iacocca since the latter's trainee days.

Dealers

In San Francisco this week, a tall Texan named Austin Hemphill (pictures) combined business with more pleasure than he had permitted himself in years under similar circumstances.

The business was a convention of retailers in an industry that annually sells more than $30-billion worth of merchandise—the National Automobile Dealers Assn. Hemphill was there for the convention, but he and his wife Ruby were able to take more time for sightseeing because, for once, the convention was harmonious and less demanding.

• **Wheelers Dealt Out**—Almost unnoticed, a change has come over the business of retailing cars. Only a few years ago, NADA's convention was always marked by hand-wringing, shrill complaints, and cries of martyrdom. Now the business is suddenly stable and routinely prosperous.

The loss of some 10,000 dealers makes the difference. The wheelers-and-dealers of a few years ago, who stirred

Hemphills and Joneses visit old ship . . .

. . . tour wharf displays of seafood . . .

Make Up With Auto Factories

up the commotion, couldn't stand adversity and dropped out of the business. The career-type dealers are doing fine without them.

According to Ben D. Mills, Ford Motor Co. vice-president and general manager of the Lincoln-Mercury Div., in 1952 there were 43,300 franchised new car dealers who sold an average of 96 cars per dealership; last year, the number was down to 33,400 dealers, but they averaged 198 sales apiece. With fewer dealers selling more cars, the retail business has stabilized despite product changes on a scale unmatched since the 1920s.

• **Living on Hope**—This helps to explain why neither dealers nor auto company officials at the NADA convention seemed frightened, even though January sales ran nearly 20% below November and December.

As he sipped a cocktail at the Top of the Mark (picture, upper left) with his factory's chief, Lee A. Iacocca, Ford vice-president and general manager of the Ford Div., Austin Hemphill voiced the confidence of many dealers when he said he intends to sell more cars this year than in 1960. Hemphill, a dealer of 20 years' experience, sells Fords in San Antonio, Houston, and Dallas.

For the next month or so, dealers and factory people expect sales to bump along at an annual rate of less than 5.5-million cars. But they feel that the rate will begin to rise in the second quarter, will accelerate sharply in the third quarter, and will race along in high gear in the final quarter.

• **Optimism on High**—"The last half of the year is going to be a very good six months indeed," Chrysler Corp.'s Pres. L. L. Colbert told dealers.

Iacocca put it in terms a dealer can see every day in his showroom. He said about 22,000 people were buying new cars every day in November and December. "For the next 60 days," he said, "it looks as if 5,000 or 6,000 people per day are dropping out. But the truth of the matter is that, by every sign we've used in the past, things can't go on like that."

Disposable income is still high, he noted. "The only question is how do you get them to dispose of it?"

Chevrolet's general sales manager, K. E. Staley, expressed pretty much the same outlook: slow sales for a couple of months, then a sharp pickup. Most factory officials agree on a forecast of around 6.2-million to 6.3-million new car sales in 1961. Dealers say only that it looks like a good, unsensational year.

• **Excessive Inventory**—Everyone from Pres. Kennedy down to the 50-car-a-year dealer in the small town knows the inventory of new cars is too high, though Colbert qualified it with "at this time." Manufacturers aren't willing to concede that the present field stock of about 1-million cars is anything more than a sign of slow business. Their effort to get dealers routinely to carry bigger stocks of cars is just about the only quarrel the dealers have with them right now. In other years, the dealers have been

. . . get acquainted with cable cars . . .

. . . and attend company "hospitality" hours.

known to lynch the manufacturers, verbally and in absentia.

To keep pace with sales, the factories have cut production back to below 100,000 cars a week (compared to a peak of about 150,000 a week in the last quarter of 1960). But they insist that the time-honored criterion of a 30-day supply of cars is no longer valid. With today's great variety of models, dealers should carry 45-day or even, when business is brisk, 60-day stocks, they say, to be sure of meeting the customer's demands.

• **Costly Practice**—The theory may be sound, the dealers retort, but the practice is getting more impractical every year. It's just about impossible to keep enough cars on hand to give instant delivery always, they say. Meanwhile, by trying vainly to do it, dealers are running their financing costs way up.

Dealers must borrow the money to pay the factories for cars. Hemphill says finance charges last year cost him $63,000. Birkett L. Williams, retiring president of NADA, says that last year "we dealers wasted, and poured down the drain, $83-million in carrying new cars in excess of a 30-day supply—that's more than $2,500 apiece for every dealer in the U.S."

The solution that Williams, Hemphill, and other dealers see is simple to suggest but hard to practice: to learn to say no when the factory man tells the dealer he should carry larger stocks. That also means educating the customer to accept delay on special orders.

Accepting this solution even in principle marks a big change for NADA. Through the 1950s, when auto retailing seemed to suffer a new shock every year, the standard demand for a remedy was legislation. One result of this movement was the price-labeling law.

• **Used Cars, Compacts**—This year's gathering of dealers adopted the new serenity in viewing two other much-discussed problems: the low state of the used car market and the future role of the compact cars.

There's no question that the compacts are changing the dealers' business. Dealers who are on the second model round with the smaller cars agree that profits are lower on higher unit sales; that means closer control of costs. The compacts, Hemphill told the Ford factory people, "have turned the used car market inside out." Late-model middle-line used cars used to be a dealer's delight; now prospective buyers are likely to think of a new compact instead.

Used car prices have been sliding. "A used car is worth only what you can get for it tonight," Hemphill said. Iacocca assured him that, at last, used car prices seem to have stabilized after a drop that only once before—in 1958—had been so severe.

"That stabilizing is why business

should pick up in the next 60 days," said Iacocca. "We have a big market in the spring by worrying about used cars in February."

• **Turbulence Ahead**—Dealers confess that it makes them uneasy to have so many name plates on the market. Especially because of the compact cars, some existing makes or models will be crowded out, they fear. They try to keep an open mind about the compacts, though, approving Colbert's statement that "I don't see how anyone can tell what the future of the compact is."

They feel, too, that still more changes in the types of cars are coming. Iacocca agrees: "There are going to be smaller cars and bigger cars. There will be cars in between the Falcon and the big Ford. Wait two years from now till you see some of the cars we've got."

• **New Standing**—The calmness with which dealers accept such a turbulent view of the future underscores the prime fact that emerged in San Francisco: The days of market turmoil and circus selling appear to be over.

Birkett Williams mentioned one reason for the change: "There has never been a time when the factory-dealer relations were as good as they are now."

The factories seem to have given NADA a new standing. Even Volkswagen of America, Inc., which has successfully gone its own way in autodom, is now encouraging its dealers to join the association. It has even appointed a vice-president to act as liaison man with NADA, something the domestic factories haven't yet done.

MARKETING BRIEFS

Rich's, Inc., big Atlanta department store, has sold its ultramodern Knoxville branch to Miller's, Inc., of that city. The deal makes Miller's Knoxville's biggest retailer, with estimated volume of over $25-million. Richard H. Rich, Rich's president, said the deal would enable his company to expand in its fast-growing home state. Trade talk has it that its Knoxville store has never come up to Rich's hopes, in volume or profit.

•

Metrecal will soon be popping out of vending machines. Edward Dalton Co., division of Mead Johnson & Co., has completed an agreement with Chicago's Automatic Canteen Co. of America under which Automatic Canteen will start offering liquid Metrecal in three flavors nationwide in its general-purpose machines for merchandise that must be kept under refrigeration. Fifty cents in coins buys an 8-oz. can (in stores, suggested list price for the 8-oz. can of liquid Metrecal is 35¢).

The Builder's the Hot Market

Appliance makers sell millions of dollars' worth of equipment when they make a direct deal with a big developer. The trick is to keep dealers and distributors happy, too.

"The door is open now, where we weren't even ringing doorbells a few years ago." Thus an official of Westinghouse Electric Corp. jubilantly views his company's progress in a vast, untapped market for appliances and utility equipment: the builder.

Westinghouse underlined its progress this week at the annual meeting of the National Assn. of Home Builders in Chicago. It announced a contract to supply appliances and heating and cooling equipment for Windsor Park Estates, a $100-million Florida housing development. This deal may bring Westinghouse $3.75-million in sales. Last year, it had an even bigger deal—$6-million—to supply the new Levittown in the Baltimore area.

• **Mass Selling**—Figures such as these, at one swoop, explain the furor the builder market has created. New housing, of course, has long meant appliance sales, sooner or later. But in the past, it was a house-at-a-time market, channeled through the local dealer.

The mass builder has turned this market topsy-turvy. In the last few years, manufacturers have organized for a new competitive battle. The giants, who sell everything from home appliances to large utility equipment, have the most at stake. It is estimated industry and company promotion outlays will run $50-million this year.

General Electric Co. sparked an industrywide drive—the Live Better Electrically program—five years ago (BW—Feb.11'56,p64). The utilities, through the Edison Electric Institute, and the manufacturers, through the National Electrical Manufacturers Assn., have taken this over.

The Medallion Home program (which entitles a builder to use a bronze medallion to help sell houses equipped with appliances and a gold medallion if he uses electric heating) is an offshoot of the Live Better Electrically drive that shoots for the builder market. GE fathered the Medallion Home idea, but Westinghouse claims it was the first to put on a national campaign focused on what it calls the Total Electric Home.

I. How Big a Market

Electrical Merchandising Week, a McGraw-Hill publication, attempts this week to assay the size of the builder market. It concludes that no one really knows. For one thing, General Electric, generally conceded to be out front, is resolutely mum. It refused to discuss its program with BUSINESS WEEK.

One clue comes from Practical Builder's Marketing & Research Panel. It reports that in the first quarter of 1959, 80% of houses in the $20,000-plus bracket came with built-in range and oven at the time of sale. Some 59% of the higher-priced houses had dishwashers; 62% had garbage disposers. One trade estimate has it that the builder now accounts for close to one-third of all range and oven sales. Hotpoint, for one, confirms that it sells most of its built-in cooking units this way.

II. Bumpy Road

In the old days, when houses were built mainly to order, appliance dealers could hope to make the sale, if not to the builder to the home buyer. As home building reached mass production stages, dealers saw this market slip from their grasp. Naturally, they hollered.

By now, though, reports the National Appliance & Radio-TV Dealers Assn., the complaints are subsiding. Dealers concede that few are equipped to handle a big development or a large apartment house. But the gripes linger.

In the first place, says Carroll McMullin, past president of NARDA and head of a Toledo appliance concern, direct manufacturer-to-builder deals set a price that make dealer prices look "ridiculous." This hurts a dealer's reputation, and his pocketbook. Moreover, the direct sale isn't limited to the large development; even small builders may bypass the dealer.

NARDA itself charges that what really hurts is when a builder contracts for more free-standing appliances than he requires, gets a good price on the package, and sells his surplus. Such a practice isn't illegal, NARDA says, but it isn't quite playing the game.

III. Solutions

Manufacturers, quite naturally, see no reason to lose a rich market just because its dealers—and sometimes even distributors—can't cope with it. But they are trying to keep their dealers happy. Distributors, and sometimes dealers, get a cut in the deal. Several manufacturers now require the builder to certify that he needs all the equipment he is buying.

• **How It's Done**—The Westinghouse setup shows how one big company handles the situation.

In January, 1959, Westinghouse initiated its Total Electric Home program. Its target: to sell more appliances and heating and cooling equipment, as part of its over-all drive to sell more big power equipment by stepping up the use of electricity (BW—Nov.28 '59,p86).

For the first 18 months, Westinghouse concentrated on selling the utilities and the potential home buyer. Last August, the company set up a Residential Sales Dept. and went after the builder in earnest.

• **Westinghouse Way**—Each of the company's 54 sales divisions has a residential sales manager. He keeps his eye out for news of building projects and makes the pitch to the builder. Then he checks with salesmen, usually distributors—both owned and independent—who submit their prices on the equipment they can supply. The manager figures out the total package, unless subcontractors are involved, in which case the individual salesmen negotiate with the subcontractors.

The distributor always gets in on the program, and a dealer also may be cut in if he is the outlet for a given product.

The builder gets a price break for volume buying. But his main benefit is the amount of promotion money the package brings him—plus all sorts of point-of-purchase promotional material.

• **Others in Field**—GE works through a two-pronged operation: One involves sales of appliances, the other the all-electric house. In some areas, appliance dealers can get in on the sale if they are willing to work at it.

• **Gaining Headway**—Westinghouse is not spelling out the results of its program. But it is especially happy with the gain in heating and cooling equipment sales to builders—up 100% since last August. Says Chris J. Witting, vice-president, Consumer Products Group: "It's the potential we're after. Industry estimates predict more than 100,000 total electric homes will be built this year. That's not much against total housing starts, but it's almost 100% more than were being built in one year just four or five years ago."

A side benefit is that builders are asking for new products to offer with their houses. And even dealers are beginning to feel they'll benefit—both from the impressive showcases the model homes provide and, later, from replacement sales. **END**

In Labor

• • •

Truckers Face $5 Fee to Teamsters For Every Trailer Moved by Piggy-Back

The trucking industry faces a prospect of paying a $5 fee, effective Feb. 1, 1962, for every trailer or container moved by railroad flatcar, barge, ship, or plane. Payments—required under new union contracts—will go into pension or health-welfare funds of the International Brotherhood of Teamsters.

The fee plan in new central states' trucking contracts (BW—Jan.28'61,p61) is IBT's first step in a strategy to offset at least in part the loss of union jobs from the rapid growth of "piggy-back" operations. According to IBT's Pres. James R. Hoffa, "thousands" of over-the-road drivers have lost jobs due to transshipment of trailers and containers.

An alternative to the fee plan, or to the proposed use of the payments, may be worked out before next February. Parties to the recent contract agreed to undertake a one-year study of "problems created by [new] methods of transportation," and to recommend possible solutions. If no mutually satisfactory solutions are devised, the fee plan will go into effect at the end of the year.

The contract referred specifically to the "piggy-back" movement of trailers or containers by railroad car, "fishy-back" transshipment by barge or ship, and the developing "birdy-back" airplane operation.

• • •

Webcor Cuts Use of Japanese-Made Parts In Response to Union Threat of Boycott

Webcor, Inc., Chicago phonograph and recording machine manufacturer, is cutting down on the use of parts and equipment imported from Japan. **The company has found American suppliers for some parts it formerly imported and it will continue the search for others, personnel manager Robert Holtz told the company's 1,500 production workers in letters outlining the company's position.**

Webcor's action was the first management response to an announcement by Local 1031, International Brotherhood of Electrical Workers, that its members will refuse to work on Japanese components after May 1 (BW—Jan.21'61,p98). Webcor is one of 83 Chicago area employers under contract with the local.

Holtz explained in the letter that Webcor has had to import parts and equipment from Japan in order to maintain its competitive position in the industry. He noted that some components "have been available only in Japan." Now the company has found American suppliers for some of these parts.

Michael Frank Darling, local union president, has asked a national committee of industry, agriculture and labor representatives to back the boycott.

Local 1031 had 47,000 members in 1958. It lists 23,000 as actually employed at present. It blames much of the membership decline on heavy layoffs due to increased use of Japanese imports.

• • •

Cost-of-Living Rise in December Adds Pennies to Workers' Hourly Wages

More than 150,000 workers received 1¢- to 2¢-hourly wage raises this week as a result of a .1% monthly increase in the consumer price index. The December figure released by the U. S. Labor Dept. was 127.5% of the 1947-49 average, a record high for the fourth consecutive month. **The total rise in 1960 was 1.5%—a jump from the 1959 increase of .9%, but substantially below 1957's record 3.4% increase.**

Cost-of-living escalator clauses in union contracts gave 110,000 workers in the metal fabricating and aircraft industries a 1¢ raise. More than 40,000 in trucking, bus lines and miscellaneous industries received 2¢.

Major influences in the December rise were food and shelter costs. **The biggest item in the over-all 1960 rise was medical costs, up 3.6% from 1959.** Robert J. Myers, deputy commissioner of labor statistics, predicted that January's figures will show "little or no change" and that 1961 as a whole will see an increase of 1% to 2%.

The Labor Dept. also recorded a loss in workers' buying power, resulting mostly from a reduction in take-home pay. In December, 1960, the factory worker with three dependents took home $80.35, representing 122% of his 1947-49 buying power. In December, 1959, he took home $82.50, representing 127.2%

• • •

Toledo Utility Workers Strike Gas Company Over Hiring Contractors to Lay Pipeline

Toledo members of the Utility Workers Union of America picked the coldest spell of the winter—10 and 11 degrees below zero—to strike the Ohio Fuel Gas Co. The 389 workers oppose a company attempt to cancel a contract clause forbidding the use of contractors to install pipelines 8 in. in diameter or smaller. Picketing began Jan. 20.

According to company officials, the company cannot meet construction schedules even with a fully employed work force when the volume of pipeline construction is high. They have offered to agree not to hire outside companies if it would result in the layoff or demotion of any employee.

UWUA Local 349 maintains that removing the clause would encourage the company to use outside concerns instead of hiring additional regular workers when line-laying booms. It could also cut down on the total work load that might keep present employees busy over a longer period.

Meanwhile, service is being maintained by 80 foremen and other supervisory personnel. The company supplies the Toledo area with natural gas.

Investors

Stock prices keep on climbing despite the continuing downturn in general business. Skeptics point to price-earnings ratios.

Wall Street had a simple description for the phenomenal strength of stock prices: "the Kennedy market."

The tag seems appropriate. The market began rising late in October, just before the Presidential election. By this week, as the chart at right shows, the Dow-Jones industrial index has climbed 85 points from its 1960 low; at 650, it is only 35 points below its all-time peak. The latest upsurge was directly tied to Pres. Kennedy's State of the Union message, which brought heavy demand for defense issues and also for many of the cyclical stocks that had been out of favor during 1960.

Investors are betting not only that the current downturn will be short-lived but that Kennedy will spark a strong business upturn. The fact is that the rise in the market has taken place at a time when most economic indicators have been slipping. Stock prices turned down last year before it was apparent that the economy itself was headed for a decline. Now they have turned up despite the fact that business is showing signs of weakness and distress.

• **1952 Pattern**—In some respects, the market now resembles the pattern in 1952, when Eisenhower was swept into office after 20 years of Democratic rule. Then, investors talked in terms of an Eisenhower market, and equity prices were bid up to new highs in the first months after he won. The difference is that economic activity then was still rising, and the market actually started falling in February, before business turned down. The real bull market associated with Eisenhower did not get rolling until the following September, when economic conditions were deteriorating, as they are now.

It's likely that stock prices will react from the extremely sharp rise of the past few months. Analysts say that on technical grounds alone a dip of at least minor proportions is due. They also say that investors are displaying hopes that Kennedy will be able to stimulate economic activity, and that there is a growing feeling that a new bull market is taking shape.

Certainly, investors are much less cautious now than they were during the 1957-58 recession. Then, the market also hit a low in October. But it continued to mark time in a relatively narrow range until April, 1958, when the economy itself began to move up. Now

Bet on a Kennedy-Sparked Upturn

there has been little hesitancy. Since hitting its October low, the market has moved up almost in a straight line.

• **Price-Earnings Ratios**—Despite investor enthusiasm, some Wall Street veterans are skeptical about the new Kennedy market. They point out that price-earnings ratios are now extremely high, compared to either the start of the Eisenhower bull market, when the Dow-Jones index was below 300, or the 1957-58 decline, when the index dropped to the 420 level. Today, the market is less than 5% below its all-time peak, and stocks are selling at an average of over 19 times earnings, which is about the 1929 level. Says an investment manager: "The economy will have to start moving fast and go pretty far to justify present price levels."

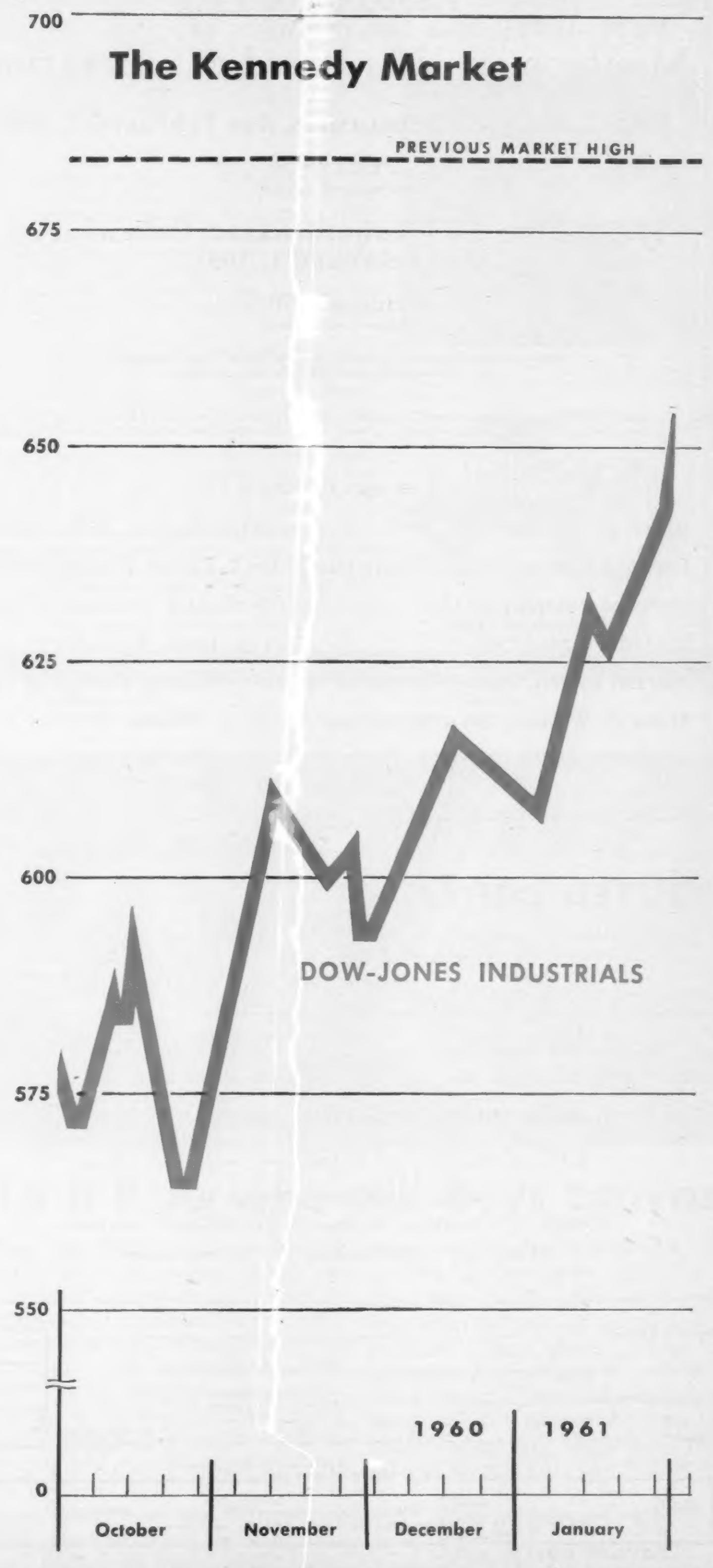
There is no doubt that if investors are disappointed in their hopes, there can be a really sharp and drastic sell off. This may happen if the business decline continues. But if the economy shows some improvement, by March or April, there is an even better chance that it will touch off a new wave of demand for common stocks.

• **Funds Available**—This is because investors—both individuals and institutions—have plenty of funds available. Many of them are hoping for a sell off that will give them an opportunity to buy stocks at lower prices. If a decline materializes, they will come in and buy, providing a floor under prices. According to one institutional man, those on the sidelines will prevent any decline below 600—provided, of course, that economic conditions do not deteriorate.

If there is a speedy improvement in the economy, investors will probably put their idle funds to work on the assumption that they had better jump on the band wagon before it is too late. The fact is that the cult of equities, which waned somewhat during the latter days of the Eisenhower Administration, is making itself felt again. Investors feel that stocks are the best investment medium—as a hedge against possible inflation, as a means of participating in the future growth of business.

• **Selective**—This penchant for stocks has been somewhat selective, concentrating on some of the new glamor groups—the shell home industry, publishing, leisure—but it has been spreading to other areas, including the cyclical stocks that were hit the hardest last year. This week, the defense stocks got a big play, and there was a further spreading of the recovery to other groups that have been lagging.

In a sense, the market is sharply split into two distinct parts—a big but mis-



cellaneous group of growth stocks selling at over 30 times earnings and a large number of cyclical issues selling at fairly moderate 8 to 15 times earnings. In any correction, the growth group is much more vulnerable. But by the same token, they are most sought after because they promise big capital gains. Says one analyst, "Everybody loves stocks, but they love the growth ones the most."

• **Cyclical Issues**—But with so many issues selling at very high prices relative to earnings, investors are bound to be paying more attention to the cyclical issues and others that are, relatively speaking at least, undervalued. If the current move into this area is sustained it will mean a broad advance, one that will have all the earmarks of a full-fledged bull market.

However, the market is now extremely vulnerable to short-term corrections. Since there is as yet no evidence that investors are engaging in a wide-spread flight from reality, as they appeared to be doing late in 1959, the almost perpendicular advance of the last few weeks is unlikely to continue. Some traders will want to cash in on their profits, and, as one broker put it, "When prices go up this far this fast, there's usually pause for people to catch their breaths."

Few analysts think that there will be anything more than a pause—a break of say 15 to 30 points—followed by a renewed wave of buying. The notion that the market will experience as sharp a decline as it suffered last year is dismissed by all but a small minority on Wall Street. The prevailing view is that enthusiasm for stocks is so entrenched that any decline is likely to be a moderate one but that an advance can be spectacular.

• **Peril of Stampede**—If a stampede into stocks does begin, it carries real dangers. For while investors are now bullish, a real bull market depends on definite signs of improvement in business. The big danger now is that investors' hopes will become so ebullient that even a moderate upturn will prove a disappointment. As one investment man sums up, "Buyers are setting their sights awfully high. Even if Kennedy performs well, it is doubtful that he can perform miracles, but that's what people seem to be expecting."

If there is a rush to buy stocks simply for the sake of buying stocks, it may lead to a blow-off—a fast rise followed by a steep decline.

So far, at least, activity in the market has not reached this stage. True, there are some signs of a rush to get on the band wagon, but it has not yet reached dangerous proportions. The likelihood is that the market will retreat and then move forward again, trusting that, in Kennedy's own words, the economy will begin moving forward, too. END

Wall St. Talks . . .

. . . about Fed's open-market dealings, Simmonds Precision, stock sales of cosmetics and book companies.

Rumors were rife in the money market this week that the **Federal Reserve shortly may start dealing in securities with up to three years' maturity in its open-market operations.** The Fed abandoned its bills-only policy last fall, but to date hasn't bought anything with more than 13 months to maturity. Fed officials say the gossip is "premature," but note that it would be "in line with" the opinion of the Federal Reserve Bank of New York that the Fed needs greater flexibility in the open market.

After Ham, the chimpanzee, went on his successful ride from Cape Canaveral this week (page 60), **Simmonds Precision Products, Inc.**, took off on a ride of its own in the over-the-counter market. Trading around \$5 since last fall, Simmonds suddenly turned "hot"—jumping above \$7. The reason: an electronic device called SARAH (search and rescue and homing) made by Simmonds, which guided vessels to the nose cone.

Underwriters say that **privately owned cosmetics companies are the latest group going public.** Two issues—Charles of the Ritz and Lanvin Parfums—are already slated for sale this spring. Meanwhile, the parade of new public offerings of textbook publishers continues. The old-line Boston house of D. C. Heath & Co. is planning a public offering through Kidder, Peabody, and Grosset & Dunlap is also considering selling shares this year.

Major Japanese banks are quietly shopping on Wall Street for dollar time deposits, offering rates of 5% and more for 90-day money. There have been few takers because investors fear that Japanese banks may be blocked from paying out dollars. But one money broker predicts that Greek and Panamanian funds, currently invested at short term in Canada, may be transferred into U. S. dollars and thence to Japan once the Canadian 15% withholding tax on interest paid to foreigners goes into effect.

Current talk of a silver shortage—and a price rise—is premature, according to a report by Handy & Harman, precious metal specialists. Pointing out that the Treasury still has substantial free silver, the report says that "the short-term outlook is for continued price stability in the U. S."

In the Markets

• • •

Hesitant Trading in Government Bonds Suggests "January Rally" Is Losing Steam

Trading in the government bond market almost stopped dead this week **as dealers waited for the new Treasury debt-management team of Douglas Dillon and Robert V. Roosa to announce the terms of their first refunding** (BW—Jan.28'61,p105).

At midweek, the terms had not yet been made public. However, the market's nervous hesitation was taken as a sign that the traditional "January rally" in the bond market—which was less spirited than usual this year—is running out of steam. The 1960 high in bond prices came as long ago as August, and since then, prices have dropped irregularly, and yields have risen correspondingly.

Dealers say that the market's performance, coming in the face of an aggressively easy Federal Reserve policy, just about eliminates any possibility for a renewed surge in bond prices. "The market," says one dealer, "is already starting to discount the next spell of tight money, and the first of the Kennedy deficits."

But there is still evidence that funds are available for investment—if the price is right. **Both corporate and tax-exempt municipal markets were described as "very firm" this week, even though trading volume was light.** Bidding for new bond issues was aggressive. In the municipal market, for example, a $29-million Aaa-rated Connecticut issue—offered at an average yield of 2.7%—was said to be going well.

• • •

SEC Charges Speculator Saved $100,000 Through Manipulation of Glamor Stocks

The Securities Exchange Commission was set up to protect the investing public from being fleeced by Wall Street. But lately the SEC has been spending a lot of time trying to protect Wall Street from "investors."

The latest of these "man-bites-dog" cases came just this week when SEC's New York regional office moved to halt an **alleged manipulation of two of the market's top glamor stocks—IBM and Polaroid**—by an odd team:

• Cecil Rhodes, Ivy Leaguer (Brown '43, Harvard Law '48) and one-time fight promoter and race horse owner, who describes himself as a "financier and promoter."

• Eugene Szemzo, Hungarian refugee, and former customers' man at Bache & Co. and Walston & Co. Inc., last heard from at the Hotel Lancaster in Paris.

• Marshall Feld who, according to the SEC, is a "long-time associate of Mr. Rhodes" and a fanatic bridge player.

The SEC alleges that late last October, Rhodes sold short 600 shares of IBM and 1,400 shares of Polaroid—then worth about $600,000—through accounts at Goodbody & Co. Thereafter, as both stocks began to rise (instead of dropping as Rhodes had hoped), **SEC claims that "the defendants employed a device, scheme, and artifice" to knock down the price of IBM and Polaroid and thus cover Rhodes' short sales at a profit.**

To do this, SEC says, they assumed false names and sold 4,000 shares of Polaroid and 1,500 shares of IBM through two other houses, Walston & Co., and Dominick & Dominick; at the same time, they were covering the short position at Goodbody. They did not own the shares they sold, SEC says, nor did they have any intention of ever delivering the stock.

The upshot was that Walston and Dominick had to make good the sales, losing $33,000 in the process. SEC does not allege that the scheme was profitable for Rhodes; in fact, he lost heavily. But SEC claims that his losses were about $100,000 less than they would have been without the manipulation. As for Rhodes, he blames Szemzo: "I was victimized to a larger degree than were the brokerage firms. Because of Szemzo, my losses in IBM and Polaroid were in the neighborhood of $200,000."

• • •

B&O Convertibles Attract Speculators Who See Quick Profit in Proposed Merger

After the proposed merger between the Chesapeake & Ohio Ry. and the Baltimore & Ohio RR was announced, both traders and investors bought B&O stock banking on the advantages that the merger should bring. As a result, B&O traded this week at $40, compared to a 1960 low of 24⅝.

But B&O common shares aren't alone in attracting attention. **There's also increased activity in the B&O convertible income 4½s due Feb. 1, 2010, which currently are trading on the New York Stock Exchange at about 80¢ on the dollar.** Speculators attracted to them aren't buying for the conversion feature—the bonds are convertible at $100 a share, compared to the present market of $40—but rather for some fine print in the indenture.

This provision calls for an additional surplus sinking funds for the 4½s, equal to 50% of dividends, whenever annual fixed charges exceed $20-million—which they would if the merger takes place.

According to Garvin, Bantel & Co., a NYSE firm, this would require retirement of $22-million on the 4½s in the first year of the merger—virtually the entire issue. Garvin, Bantel says that "an attempt will be made to eliminate this provision, but the bonds are strongly held, largely by institutions unlikely to agree to any change in the indenture." Under these circumstances B&O can be expected to buy up the floating supply of the bonds in the open market, and then eventually redeem the rest at the current call price of 105.

A rise in price from 80 to 105 represents a nice profit in itself. **But most sophisticated speculators are getting the B&O bonds on 25% margin—which would mean that the profit, assuming a call price of 105, would be better than 115%.** On the other hand, there's a possibility of big losses if the merger doesn't go through. For the interest on the 4½s is payable only if earned by the B&O.

PERSONAL BUSINESS

BUSINESS WEEK

FEB. 4, 1961

A BUSINESS WEEK SERVICE

"Three jet airliner crashes have hit the New York metropolitan area in the past six weeks. Total number of deaths: 144."

If news summaries like this shock you—maybe cause you to think twice about commercial flying—you might find it worthwhile to read a new book, The Probable Cause, by Robert J. Serling (Doubleday, $3.95).

This is no whitewash, nor is it loaded with idle scare. In effect, the author says, sure, there are some fatal accidents in the air—and there likely will be in the future, barring man's sudden omnipotence. **But look at the record:**

In the first place, it's not true that "nobody walks away from an airplane crash." Quite a few walk away. From 1946 through the first half of 1959, 103 U. S. airliners were involved in serious accidents. In 40 of these, everyone was killed. But in 25 of the accidents, some people survived—and in 38, there were no fatalities. (In one of the three recent New York crashes, 102 of the 106 passengers and crew escaped, despite the fact that the plane was totally demolished.)

So far, small comfort, but go one step further: Any time you drive your car over 60 mph., says Serling, you expose yourself to a far greater risk of death or permanent injury than when you step into a scheduled airliner. About 1,500,000 individual scheduled flights took off in the U. S. in 1959. There were nine fatal crashes—which adds up to only one fatal accident for about every 350,000 flights.

"It is a statistical fact that you are 20 times safer in a commercial airliner than you are in your own car," says Serling.

On jet safety, these comments: stronger, safer aircraft, compared with older prop craft. This is true, despite greater speed at higher altitudes.

—•—

Investors in high tax brackets might look into a new kind of investment fund that's gaining attention—one that invests solely in tax-exempt state and local bonds, and pays a tax-free return.

It works like a mutual fund, with a group of investors pooling their dollars to gain diversification and professional management. Technically, these aren't mutual funds at all, but trusts, roughly analogous to the fixed trusts so popular in the late 1920s.

Shares (or certificates) are not offered on a continuous basis, and there's no management or redemption fee. But, typically, there is a 4% sales charge when you buy the certificates.

So far, there are two such tax-exempt funds in the offing. One, sponsored by **Ira Haupt & Co.,** the New York Stock Exchange member firm that originated the idea (BW—Sep.10'60,p147), will run to $20-million; the other, put out by **John Nuveen & Co.,** an old-line Chicago municipal bond firm, will amount to $5-million. There will be a nationwide syndicate of underwriters involved in the sales in both cases.

Once the current fund is sold, Haupt plans additional ventures. **Other firms are almost certain to get into the act soon.**

—•—

"Health spas" in south Florida—set up to accommodate ailing or just

BUSINESS WEEK
FEB. 4, 1961

plain weary executives—are beginning to attract attention. New ones, opened in the past few months, offer sanctuary to wives, too.

You check in, hotel-style. Atmosphere is strictly luxury-resort, not hospital. First, you get a complete physical examination by an attending physician, who recommends any needed plan for special diet, exercise, or other therapy—or who follows the routine prescribed by your own doctor. **You can take advantage of a variety of medical aids:** gymnasium, sulphur and salt water baths, whirlpool and massage treatments, dry and steam heat cabinets, for example.

If normal, outdoor sport is what you need, there are usually choices of tennis, golf, swimming, boating, and fishing.

Finer spas in the Miami area include Harbor Island, Treasure Key, and Lido. A few miles north, in Hollywood Beach, are **Carlsbad and Sea spas.** Others are slated for early opening. Tab is about $25 to $30 a day per person, double, through Mar. 31, on the American plan. Fee includes use of all facilities.

Tax note: If you go under doctor's orders, you may be able to deduct the cost as a medical expense. But don't fail to have on hand a signed statement from your physician.

—•—

Shorter "boards" may mean your breakthrough to confidence in skiing —and maybe mastery of the "wedeln" style. Whether you're just learning or perfecting your turns, you'll probably find practice with a 2½-ft. or 5-ft. size helpful.

The rule is that the proper length of ski is determined by the wrist height of your arm when extended upward. **However, many skiers find long skis a handicap in developing natural ability.**

Clifton Taylor, veteran ski instructor, now is marketing laminated hickory short skis with offset metal edges. The 2½-ft. size (broader than a junior size of the same length) costs $19.95; the 5-ft. pair (for use on powder snow) is $34.95. Write to Short-ee Skis Inc., P. O. Box 61, Brattleboro, Vt.

Travel: If you have a ski vacation in mind, remember that in some areas you can arrange in advance for a rented car equipped with ski racks and snow tires.

—•—

Weather forecast: This frigid season is no true harbinger of colder winters in the next few years, says Columbia University's Prof. Rhodes Fairbridge—in fact, next winter is very apt to be milder, if you look at short-term weather cycles.

True, there's a long-term, worldwide trend toward colder climate, says Fairbridge, who just concluded a stint as co-chairman of an American Meteorological Society weather conference in New York. But it's nothing to move south about, he adds. **In the next 50 years, the average temperature in most parts of the U. S. likely will drop just two to three degrees.**

—•—

Darkness to light: If you're dissatisfied with your background knowledge of Africa and its peoples, you can gain insight from a new 123-page book, **An Atlas of Africa**, by J. F. Horrabin (Praeger, $1.45 paper, $3.50 cloth). Maps are simple, yet detailed, with text clear enough to make even the Congo situation understandable.

PRODUCTION

Making Big Value Out of Small Logs

Two new Pacific Northwest lumber mills are highly mechanized to process logs often just chopped up for pulpwood

Two of the lumber industry's most highly mechanized mills are starting up in the Pacific Northwest with a feed stock that would have been beneath loggers' contempt only a few years ago. These mills—one operated by Simpson Timber Co. (drawings) and the other by Crown Zellerbach Corp. —process logs that average less than a foot in diameter. Most sawmills working on a large scale insist on two or three times that diameter, at least.

The two factors—the size of the logs and the mechanization of the mills—are closely related. Without a high degree of automatic handling and processing, it wouldn't pay to put small logs through a mill; and mechanization in this industry—at least to the extent these two companies have gone with it —probably wouldn't be possible except on a small-log mill, handling fairly uniform sizes of timber.

• **Any Change Is Good**—This concept of small-log milling could bring important changes to the lumber business, for which almost any change would be an improvement.

Logging unions are after more pay and fewer hours, driving the industry's costs up. Meanwhile, lumber prices drift lower, both because of dullness in construction and because of the inroads that rival materials are making in wood's historic market.

Simpson and Crown Zellerbach see an inevitable spread of mechanized mills designed from the start to handle small logs at maximum profit. A small-log mill, they say, bases its economy on fast, high-volume work. And this condition is easier to attain with small logs than the huge ones that a conventional mill must contend with, since small logs are more uniform, and easier to toss around on conveyors.

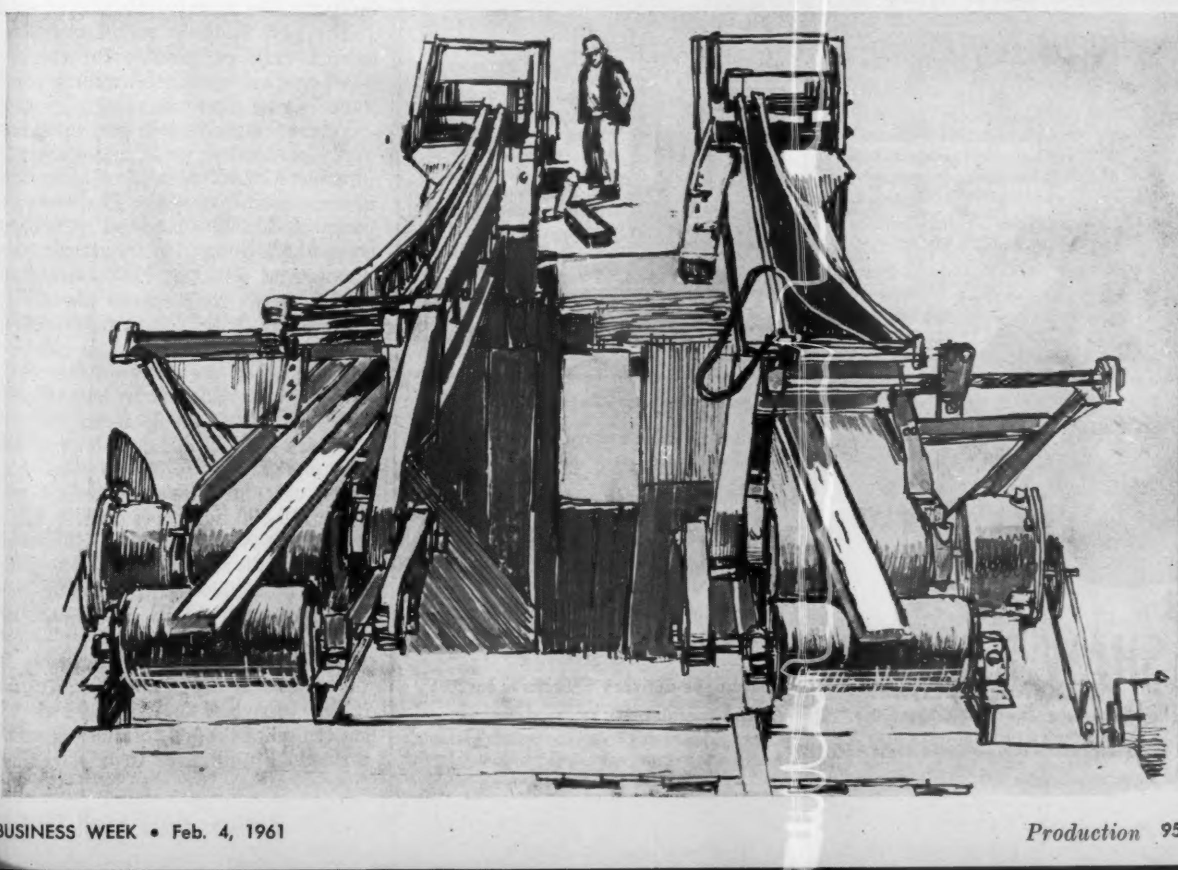
There are some small-log mills already, mostly in the South, but they generally feed on big ones when the big ones are available. So they aren't mechanized so directly for small logs as a mill built for that special purpose. Also, Southern mills, which are converting largely to a pulp economy rather than a lumber economy, aren't saddled with the high wage rates and heavy freight costs that make mechanization so important for small loggers in the Pacific Northwest.

Small logs—anything between 6 to 34 in. or so in diameter—are quite often just chewed up for pulpwood, rather than being processed for lumber. Thus, in the normal course of events, they're less profitable to conventional mills.

• **Abundant Source**—The two new plants—Simpson's in Shelton, Wash., and Crown Zellerbach's in Columbia City, Ore.—are operated almost entirely from control consoles by workers who just press buttons and flick switches. Perhaps more important, these mills escape from the Pacific Northwest industry's old dependence on the fast-vanishing stands of giant, old-growth timber.

The virgin stands of Douglas fir, the 300- to 600-year-old trees that last year accounted for nearly 30% of the 35-billion board-feet of lumber produced

Near the end of the line, two edgers—one taking rough boards from the gang mill, the other, larger chunks from the band mill—square off edges of the wood.



YOUR POSTMASTER SUGGESTS: For faster and more efficient postal service . . .

Learn the "A.B.C.'s" of good mailing habits!

A postal delivery zone number helps speed your mail!

B certain to include your return address on all letters and packages!

C that the delivery address is correct and complete!

MAIL EARLY IN THE DAY
—IT'S THE BETTER WAY!

by the industry, obviously can't last forever.

Some say there's only 50 years of virgin timber left in Washington and Oregon. What Simpson and Crown Zellerbach are after is the second-growth timber that has sprouted up where the virgin forests once stood—second-generation trees only 80 or 90 years along.

These "young" trees are big enough to cut if the stand is managed intelligently. And they can be milled with lighter machinery than that in conventional mills. Lumbermen say they actually recover more wood per acre, too. There's less waste on the younger trees, less damage by disease, rot, and breakage in felling. The trunks taper less, making them easier to handle and slice up.

The two new mills expect also to get much of their timber from the thinning of stands that won't be harvested as a whole for 20 or 30 years later. Growers weed out enough trees to give the rest more growing room. Usually, the thinnings are simply cut into chips for pulpwood, but Simpson expects them to make up 40% to 50% of the 30-million board-feet its mill will process each year.

• **Need to Mechanize**—Small logs do have one drawback that has kept many lumber companies—including Weyerhaeuser Co., biggest of them all—from jumping into that field: A small log generally ties up a gang-saw about as long as a fair-sized log, yet yields less lumber.

The new Simpson and Crown Zellerbach mills compensate for this by speeding up materials-handling and standardizing their processing.

When Simpson's mill gets up to capacity production, its 10-man crew will turn out 120,000 board-feet of lumber in each eight-hour shift. That's an average of 12,000 board-feet per man, compared with an industry average, says Simpson, of 5,000 to 7,000 board-feet. Simpson's two conventional sawmills in Shelton are both considered modern, yet one requires 20 men to produce 140,000 bd.-ft. per shift and the other, handling larger logs, turns out 150,000 bd-ft. per shift with 25 men.

Crown Zellerbach's small-log mill can run material through about as fast. With nine men on the floor, it produces 110,000 bd.-ft. per shift.

The Simpson and Crown Zellerbach small-log mills are similar in size (around 24,000 or 25,000 sq. ft.) and in price ("over $1-million"). However, each has its own special features.

• **How It's Done**—The elements of the process as the Simpson mill carries it out (drawings on pages 94 & 95) are typical of the type of mechanization a small-log mill needs to be a volume-type operation.

The logs are first de-barked conventionally. Then photoelectric cells control the conveying of the log to the cutoff saw, automatically measure the length of the log, and relay the measurement to the operator at the control console. He orders the exact lengths into which the log is to be divided, and the cutoff saw automatically follows his pushbutton instructions. It also squares off the ends.

Conveyors carry the lengths of log to either a gang mill (which slices them into planks or boards) or a band mill (which cuts them into thicker slabs as a preliminary to making 2x4s or other thicker boards). The next stop in either case is an edger, that takes off any roundness on the edges. All these steps at the Simpson mill are done with fairly conventional equipment.

After that, however, the operator presses a button to signal one of three destinations for the newly cut boards: a "re-saw" for making boards narrower or thinner, a trimmer for cutting them shorter, or the storage space. He merely makes the selection on an automatic sorting system.

A rotating magnetic memory disk relays the operator's orders to the controls of three different conveyors. The automatic trim-saw also uses a magnetic memory disk to guide it in cutting wood up to the lengths that the operator wants.

• **Before and After**—Crown Zellerbach's small-log mill, which follows the same pattern of mechanization, also has automatic handling before and after the sawing operations.

At conventional sawmills, men usually sort logs by diameter on a millpond; Crown Zellerbach has a "dryland automatic sorter." As logs are fed into a giant sorting machine by conveyors, the operator estimates the diameter of each log and pushes a corresponding button on his console. Photoelectric cells signal the controls that direct the logs automatically into 14 pockets for storage according to sizes. Then comes the de-barking and the regular milling.

After the lumber comes out of the sawmill, another automatic sorting system classifies the material by width and length, then stacks it by sizes. Patents on this process are pending, so Crown Zellerbach is reluctant to discuss details of this unit.

• **Fast In, Fast Out**—"Lumbering today is getting like all other industries," says a Crown Zellerbach executive. "You've got to push raw materials in the door one minute and shove finished goods out the back door the next minute. Right now, the average sawmill can't do it, handling the really big stuff. Small-log mills, working on uniform sizes and lengths, though, could change all that." END

In Production

• • •

Gulf Ready in April to Start First Fully Automatic Cat Cracker

A catalytic cracking unit fully controlled by a Thompson Ramo Wooldridge, Inc., RW-300 computer will go into operation in April at Gulf Oil Corp.'s Philadelphia refinery. The unit—the oil industry's first fluid catalytic cracker to be run by a computer on a "closed loop" basis—will produce 60,000 bbl. per day of high octane gasoline, butanes, propanes, and household and industrial fuel oils.

In automated process control, **"closed loop" means the computer completely runs the show without human supervision.** Instruments automatically take readings and feed them to the computer, which makes the necessary calculations and then sees that the controls are adjusted.

Among fluid catalytic crackers, the nearest thing to Gulf's closed-loop operation is Standard Oil Co. of California's catalytic cracker in El Segundo, where "open loop" computer controls are used. There, instrument readings go automatically to the computer, and the computer makes the calculations needed. But an operator sets the controls.

Gulf engineers and scientists began exploring the possibilities of computer controls about two years ago, and toward the end of 1959 began working with TRW scientists on process analysis, programing, and hardware engineering. **Their joint study shows the computer will raise the operating efficiency of the cracker to 95% of theoretical perfection.** In conventional crackers, according to Gulf, about 85% is standard.

• • •

Silver Ions Used to Kill Bacteria In Water for Pools, Bottling Plants

For several years it has been known that certain heavy metals are toxic to bacteria. Now, J. H. Scharf Mfg. Co. of Omaha is putting this principle to work in a new water sterilization process that kills bacteria with silver ions.

Scharf is pushing the process for use in swimming pools and hospitals—as well as in breweries to stop fermentation, in bottling plants to stabilize soft drinks, and in food processing plants to preserve perishable products.

The Scharf process is rather simple. About 1/70th of the total amount of water to be treated is passed over six silver electrodes or bars; as electricity pulses through the bars, the silver decomposes, sending silver ions into the water in heavy concentration. This saturated solution is then mixed with the rest of the water and acts to purify all of it.

Scharf claims that the process gives 40 times greater bacterial kill than chlorine in swimming pools, and that it doesn't have irritating effects. Because silver is toxic to human beings and animals in heavy concentrations, the municipal market may prove a little difficult to sell. Scharf says, however, the concentration of silver in the water—a maximum of .02 to .03 parts of silver per million parts water—is not toxic to humans or animals.

Although Scharf claims its application of the ion metal principle is the first in the U. S., similar applications have been developed in Germany and Switzerland.

• • •

Shortage of Free-Lance Computer Experts May Be Eased; RCA to Train Outsiders

Many companies that have their own computers would also like to have their own technicians around when something goes wrong; but up to now, almost all such technicians have been working for the computer-makers.

At the end of this month, Radio Corp. of America will try something new that may relieve the scarcity—it will open its training courses in maintenance of RCA and non-RCA computers to outsiders.

The first class of 30 trainees is already filled. **It will run until next December, with the next course scheduled for early 1962.**

RCA's motive in all this is rather simple: It hopes to hire some of the brighter graduates of its school—but only the ones who are unattached.

• • •

Second Newcomer Joins Producers Of Lead Additives for Gasoline

A few months ago, Houston Chemical Corp. announced it was building a plant to produce tetraethyl lead and tetramethyl lead, which would make it the country's third producer of these gasoline additives (the other two: Ethyl Corp. and du Pont). Last week, Stepan Chemical Co. of Northfield, Ill., announced that it is also getting into the TEL-TML business.

Stepan has just entered a working agreement with Societa Lavorazioni Organiche Inorganiche (SLOI), an Italian company that has been producing anti-knock additives for the European market for 25 years. SLOI will furnish Stepan with design information and technical data on manufacturing, and will train men to run the plant.

• • •

Production Briefs

M&T Products of Canada, Ltd., will break ground for **Canada's first de-tinning plant in mid-February.** The \$1-million plant will go up at Hamilton, Ont., and, when completed, will remove tin from high-quality tin plate scrap produced in can-making operations. Completion is expected before yearend.

A 227-ft., 600,000-lb. processing vessel—considered the tallest ever installed in one piece—has just been put up at the new Houston plant of Sinclair-Koppers Chemical Co. The giant vessel is the first of eight that will make up Sinclair-Koppers' main fractionation unit for the production of styrene.

Member Audit Bureau of Circulations

BUSINESS WEEK

Member Magazine Publishers Association

Index of Advertisers in the February 4, 1961 Issue

ADVERTISING SALES STAFF

Midwestern Advertising Sales Manager
William C. Bradford—Chicago

Eastern Advertising Sales Manager
R. Bernard Alexander—New York

Atlanta 9......Douglas C. Billian, 1375 Peachtree St., N. E. Trinity 5-0523
Boston 16......Kent Sanger, McGraw-Hill Bldg., Copley Square, Congress 2-1160
Chicago 11...Albert D. Gray, Herbert M. Higgins, William F. Holbrook, Robert Sidur, 520 N. Michigan Ave., Mohawk 4-5800
Cincinnati 2....Richard J. McGurk, Carew Tower, Garfield 1-5474
Cleveland 13........L. J. Biel, John G. Cashin, 55 Public Square, Superior 1-7000
Dallas 2..Gordon L. Jones, Robert T. Wood, 1712 Commerce St., Riverside 7-5117
Denver 2......John W. Patten, 1700 Broadway, Alpine 5-2981
Detroit 26........G. Robert Griswold, Donald C. Maunders, Penobscot Bldg., Woodward 2-1793
Houston 25....Gene Holland, Prudential Bldg., Jackson 6-1281
Los Angeles 17....Alfred L. Blessing, 1125 West Sixth St., Huntley 2-5450
Minneapolis 2.......Richard C. Thompson, 120 South Sixth St., Federal 2-7425
New York 36....Harold E. Choate, Fred R. Emerson, John H. Glover, John F. Juraschek, Francis F. McAdams, John C. White, Jr., 500 5th Ave., Oxford 5-5959
Philadelphia 3.......Henry T. Berry, William L. Blanchard, James T Hauptli, Six Penn Center Plaza, Locust 8-4330
Pittsburgh 22....John R. Thomas, Four Gateway Center, Express 1-1314
Portland 4....Scott Hubbard, 445 Pacific Bldg., Capital 3-5118
St. Louis 8....John F. Boomer, 3615 Olive St., Jefferson 5-4867
San Francisco 4...John W. Otterson, 68 Post St., Douglas 2-4600
London W. 1...Edward E. Schirmer, 34 Dover St.
Frankfurt.....Stanley Kimes, 85 Westendstrasse, Frankfurt-M. Germany
Geneva..........M. R. Zeynel, 2 Place du Port, Geneva, Switzerland
Tokyo........International Media Representatives, Ltd., Kishi Kurabu 14 Marunouchi, 2-Chome

An Issue That Is Still Unfaced

Pres. Kennedy's State of the Union address to Congress this week was an eloquent, and at times deeply moving speech. Some of its passages—especially the stirring appeal to all his fellow citizens to face the harsh realities of our times with "pride and perseverance"—roused the listener's hopes that this would prove to be a great state paper.

Perhaps it was this very eloquence that contrasted with the lack of bold, definite proposals for action and produced a final feeling of disappointment. For when the President had finished, it was hard to avoid the conclusion that he had relied too much on oratory after the time for oratory had passed. If the situation is as grim as the President described it—and there is every reason to believe that it is—then, it is time for specific, positive proposals.

In the area of foreign policy, the necessity for a slow approach is understandable. The State of the Union address repeated much of what the new President had said in his inaugural, spelling out a bit more his determination to strengthen America's defenses and simultaneously to prepare the U. S. position on arms control for negotiation with the Russians. With allies to be consulted and mountains of information to be evaluated, this probably is all that could be said so soon after taking office.

But much of the speech concentrated on domestic economic problems. Pres. Kennedy painted the current recession and the over-all performance of the economy in recent years in very black colors. He made it plain that he was taking office "in the wake of seven months of recession, three and a half years of slack, seven years of diminished growth . . ."

What does the President propose to do about this? Increase unemployment benefits, give more food to the families of the unemployed, seek to stimulate housing, raise the minimum wage, "redevelop" areas of chronic labor surplus, expand the services of the U. S. employment offices, "offer tax incentives for sound plant investment," encourage price stability—and take "other steps."

Listed in this fashion, the various measures sound like a broad program. But neither individually nor collectively do they represent a real attack on the immediate problem of recession and the broader problem of slow growth.

And on the really crucial question—the over-all set of expenditures and tax policy—the President's message was peculiarly vague.

"A new Administration," he said, "must of necessity build on spending and revenue estimates already submitted. Within that framework, barring the development of urgent national defense needs or a worsening economy, it is my current intention to advocate a program of expenditures that, including revenues from a stimulation of the economy, will not of and by themselves unbalance the earlier budget."

What this Delphic statement means is likely to remain a mystery for some time. Obviously, its somewhat twisted phrasing results from the conflict over fiscal policy now going on among the advisers to the new Administration (page 13). Apparently, however, it means that the President has decided to take the Eisenhower budget as a starting point, add such expenditure programs as he judges necessary, and depend on these expenditures to stimulate the economy enough to produce offsetting revenues that will bring the budget back into balance.

The President apparently has decided—as did Eisenhower before him in 1957-58—to take the gamble that the economy will round the corner and make it uphill through a recovery without basic changes in fiscal policy.

The Basic Problem

Even if this gamble on short-run recovery pays off—and we certainly hope that it does—this will mean that the new Administration has delayed a real attack on the fundamental ailment of the national economy: an overloading of tax burdens at present expenditure levels—and, in consequence, a weak economic growth performance in which the slow rise in revenues also acts as a major inhibitor on the rise of essential government expenditures.

It is quite understandable that the new President has taken the cautious line he has. Clearly, he is hesitant, because of the posture of sacrifice to which he has summoned the nation, to propose tax reduction. And tax reform, without tax reduction, is hard to get and of somewhat debatable potency.

One must also sympathize with the inhibitions posed by the balance-of-payments situation and the need to forestall a gold crisis. Kennedy deserves high marks for re-emphasizing his determination to defend the dollar at its present value. He is right in his assertion that the U. S. has gold stocks of $22-billion with which to do this—including our drawing rights at the International Monetary Fund and gold held as backing for our currency. All of this—without new legislation—is fully available to defend the dollar against speculation; and Kennedy is prepared to use it, if necessary.

This is a commendable stand. It should be added that the most effective of all ways to deal with the gold drain would be a more determined attack on our national economic stagnation. Let us have, indeed, these expenditures that are essential to our national security. And let us have a tax structure appropriate to our national needs of both growth and stability. The President should attack the solution of his economic problems with the boldness and vigor with which he has described those problems.

t."
to
its
lict
ers
tly,
led
int,
ces-
ate
ues

did
the
ner
asic

ays
will
d a
na-
s at
e, a
the
itor
res.
dent
e is
hich
duc-
, is
.
ions
the
rves
n to
ight
s of
our
und
l of
e to
edy

lded
the
our
eed,
onal
iate
lity.
his
with